

## CASE #1

### System Reviews – Writing FFCs

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

**Estimated Time to Complete: 15 Minutes**

#### **SCENARIO A**

You are performing the peer review of George and Campbell, LLP and have decided the firm's nonattest services documentation is lacking to the point that it should be elevated to an FFC.

#### **Question 1**

What are the key elements that should be included in the reviewer's description of the finding?

#### **Solution 1**

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

Paragraph .73 of PRPM 1000 says, in part, "The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable."

#### **Question 2**

What is a systemic cause and why is it important?

#### **Solution 2**

- **A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected.**
- **Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control.**

Paragraph .75 of PRPM 1000 says, in part, "A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected. Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control."

#### **SCENARIO B**

You are performing the technical review of George and Campbell, LLP and have received FFC 1 and FFC 2 (below) in the documentation submitted by Mr. Lewis (the peer reviewer).

**Question 1**

Review FFC 1 below and determine whether the 1) reviewer's description of the finding, and 2) the systemic cause identified are in accordance with the Standards.

**Solution 1**

**Neither the reviewer's description of the finding nor the systemic cause identified are in accordance with the Standards.**

While the reviewer's description of the finding correctly references a nonconforming engagement that resulted from the finding, the Statement on Quality Control Standards reference and the scenario that led to the finding are missing.

Additionally, the provided cause of "improper documentation of nonattest services" is not systemic in nature and could be more descriptive in order to assist the firm with identifying the appropriate remediation of the firm's system of quality control.

Paragraph .73 of PRPM 1000 says, in part, "The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable."

Paragraph .75 of PRPM 1000 says, in part, "A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected."

**Question 2**

Review FFC 2 below and determine whether the 1) reviewer's description of the finding, and 2) the systemic cause identified are in accordance with the Standards.

**Solution 2**

**Yes, the reviewer's description of the finding and the systemic cause identified are in accordance with the Standards.**

Paragraph .73 of PRPM 1000 says, in part, "The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable."

Paragraph .75 of PRPM 1000 says, in part, "A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected."

## FINDING FOR FURTHER CONSIDERATION

**Firm Name**

George &amp; Campbell, LLP

**Firm Number**

900012345678

**Review Number**

123456

**Peer Review Year-End**

6/30/2020

**FFC Number:**

FFC 1

**Covered MFCs:**

MFC 2

**Professional Standard Reference:**

Professional Standard Name Paragraph	ET Section and Description
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Professional Standard Name	ET Section and Description	Paragraph
ET	1.200 – Independence	.295.40

**Level of Service**

Audit

**Industry**

325 – SLG

380 – Def Cont Plans (x403(b))

Reviewer's Description of the Finding: The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable.

Select a reviewer description from a related MFC or directly enter your response below.

We found that on one audit subject to Yellow Book and one audit subject to ERISA, formal written documentation of the understanding of nonattest services was not in the audit workpapers. The engagement subject to Yellow Book is considered nonconforming.

Systemic Cause of the Finding: Improper documentation of nonattest services.

Type of Finding: Compliance

Were similar findings noted in the prior year? No

Reviewed Firm's Response to the Reviewer's Finding(s) Described Above:

The response should describe the following: The firm's actions taken or planned to remediate findings in the firm's system of quality control (see interpretations).

We concur with the finding. In the referenced cases, the understanding was reached with the client but not documented in writing. All nonattest services were identified in

the audit planning workpapers and there were not breaches of our firm policies regarding independence.

Effective immediately, we are reinforcing our documentation by requiring that planning documents and practice aids clearly reflect that the firm has documented in writing the understanding with our client regarding nonattest services to be performed, our responsibilities, and any limitations of the nonattest services.

For Nonconforming Engagements, the response should also describe the following: The firm's actions taken or planned to remediate the engagements identified on the FFC form as nonconforming.

We concur with the finding. In the referenced cases, the understanding was reached with the client but not documented in writing. All nonattest services were identified in the audit planning workpapers and there were not breaches of our firm policies regarding independence.

Effective immediately, we are reinforcing our documentation by requiring that planning documents and practice aids clearly reflect that the firm has documented in writing the understanding with our client regarding nonattest services to be performed, our responsibilities, and any limitations of the nonattest services.

Timing of Remediation: N/A

Captain Comments: N/A

Captain:	James Lewis	Date: 11/26/2020
Reviewed Firm Representative:	Steven Campbell	Date: 11/27/2020

**FINDING FOR FURTHER CONSIDERATION**

**Firm Name**  
George & Campbell, LLP

**Firm Number**  
900012345678

**Review Number**  
123456

**Peer Review Year-End**  
6/30/2020

<b>FFC Number:</b> FFC 2	<b>Covered MFCs:</b> MFC 4
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<b>Professional Standard Name</b>	<b>AU-C Section and Description</b>	<b>Paragraph</b>
AU-C	700 – Forming an Opinion and Reporting on Financial Statements	A.41
AU-C	700 – Forming an Opinion and Reporting on Financial Statements	A.41
AU-C	700 – Forming an Opinion and Reporting on Financial Statements	A.41

**Level of Service**  
Audit

**Industry**  
7 – FDICIA (\$500M-1B assets)  
165 – Construction Contr  
260 – NFP Org (inc Vol H&W Org)

Reviewer's Description of the Finding: The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable.

Select a reviewer description from a related MFC or directly enter your response below.

The firm's policies and procedures and professional standards require that on or before the date of the auditor's report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. We found that on three audit engagements reviewed, such timely engagement partner review was not clearly documented in the audit workpapers. Some documentation of engagement partner

review was dated after the report date.		
<p>Systemic Cause of the Finding: The firm's policies and procedures require Engagement Quality Control Review only on certain high-risk engagements. Since there is no second partner review of the engagement documentation, there is no safeguard to help ensure that timely engagement partner review was documented.</p> <p>Type of Finding: Compliance</p>		
Were similar findings noted in the prior year? No		
<p>Reviewed Firm's Response to the Reviewer's Finding(s) Described Above:</p> <p>The response should describe the following: The firm's actions taken or planned to remediate findings in the firm's system of quality control (see interpretations).</p> <p>We concur with the finding. The audit work was adequately reviewed prior to issuance of the reports, but this was not documented at the workpaper level.</p> <p>Effective immediately, we will revise our policies and procedures to require a second partner review of selected audit documentation, including timely audit partner documentation of review, prior to issuance of any audit report.</p>		
<p>For Nonconforming Engagements, the response should also describe the following: The firm's actions taken or planned to remediate the engagements identified on the FFC form as nonconforming.</p> <p>N/A</p> <p>Timing of Remediation: N/A</p>		
Captain Comments: N/A		
Captain:	James Lewis	Date: 11/26/2020
Reviewed Firm Representative:	Steven Campbell	Date: 11/27/2020

## CASE #2

### System Reviews – Systemic Causes

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

**Estimated Time to Complete:** 20 Minutes

#### **SCENARIO A**

##### **Question 1**

Whose responsibility is it to determine the systemic cause of matters identified during a peer review?

##### **Solution 1**

**The review team, working with the firm, is responsible for determining the systemic cause.**

Paragraph .83 of PRP Section 1000 states in part: When the review team is faced with an indication that a matter(s) could be a finding, the review team's first task in such circumstances, in collaboration with the firm, is to determine the systemic cause (see interpretations). Causes that might be systemic and might affect the type of peer review report issued include, but are not limited to, the following:

- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
- b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
- c. The failure should have been detected if the firm's quality control policies and procedures had been followed.
- d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion.

##### **Question 2**

How should the team captain identify a systemic cause?

##### **Solution 2:**

**First, the team captain needs to gain an understanding of the situation(s) that led to the matter. The team captain should ask questions that will lead to a possible**

**systemic cause. Secondly, the team captain should consider the results of the quality control testing (PRPM Sections 4500-4650).**

Many times, reviewers and firms will decide that a matter was caused by human error or oversight. To help the firm improve their quality control system, the firm and reviewer should try to dig deeper to really understand what caused the matter.

Additionally, we frequently see improper use of practice aids or inadequate review as the systemic causes. Rather than defaulting to improper use of practice aids, reviewers may want to consider whether there were additional breakdowns. For example, does the engagement team have a sufficient understanding of the professional standards to allow them to understand why the practice aids lead them to perform the specific procedures. Therefore, improper use of the practice may just be a symptom of other issues.

Similarly, a lack of supervision and review could be detrimental for engagement quality, but there may be other factors that also contributed to a matter.

Interpretation 83-1 of Section 2000 states:

Question — Paragraph .83 of the standards notes that when a review team is faced with an indication that a matter(s) could be a finding, the review team's first task in such circumstances, in collaboration with the firm, is to determine the systemic cause. Why?

Interpretation — The evaluation of a firm's system of quality control is the primary objective of a System Review and the basis for the peer review report.

As such, when a reviewer in a System Review discovers a matter, including an engagement that was not performed or reported in conformity with applicable professional standards in all material respects, he or she should avoid considering the type of report to issue until the systemic cause of the matter (to determine if it rises to the level of a finding, deficiency or significant deficiency) is identified, where it is reasonably possible to do so.

Reviewers in a System Review must think of matters as symptoms of weaknesses in the firm's system of quality control. Further, reviewers, in collaboration with the firm, must make a good faith effort to try to identify the systemic cause for those matters to determine if they rise to the level of a finding. A finding has a systemic definition; a finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. With a finding, the reviewer is considering more than just the "matter;" they are considering the condition (that is, systemic cause) that resulted in the matter(s) occurring. Otherwise said, the reviewer must determine why the matters occurred. Upon further evaluation, a finding may rise to a systemically oriented deficiency or significant deficiency.

The system risks identified as part of the completion of the Guidelines for Review and Testing of Quality Control Policies and Procedures (PRPM sections 4500 to 4650) will be a helpful resource for reviewers in assessing the systemic cause. The assessment of the systemic cause should consider that separate matters that are exactly the same may result from completely different quality control weaknesses in the firm



To properly assess the systemic cause, reviewers should not accept “oversight” or “isolated” as the firm’s response without further investigation. Accordingly, the firm should provide sufficient detail for the reviewer to understand what caused the matter. For example, the failure to follow the firm’s practice aid for a particular area may have been an isolated occurrence; however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter. Further guidance is provided in Interpretation No. 84-1 to assist reviewers in determining if the matter is isolated.

Paragraph .84 of Section 1000 states: A matter may be the result of an isolated human error and, therefore, would not necessarily mean that a finding, deficiency, or significant deficiency exists (see interpretations). However, if the reviewer believes that the systemic cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a matter on an engagement or within a functional area also exists in other engagements or in other functional areas, the reviewer needs to consider carefully whether to elevate the matter to a finding, deficiency, or significant deficiency.

Paragraph .85 of Section 1000 states: Although an isolated matter or an instance of noncompliance with the firm’s quality control policies and procedures ordinarily would not be included in the report, its nature, systemic cause (if determinable), and relative importance for the firm’s system of quality control as a whole should be evaluated in conjunction with the review team’s other matters before making a final determination (see interpretations)

### **Question 3**

What is the risk of writing a systemic cause that does not truly encompass the identified issue(s)?

### **Solution 3**

**A poorly written systemic cause creates a risk that repeat findings, deficiencies, or significant deficiencies are improperly identified (or not identified at all).**

**Additionally, failure to properly identify the systemic cause increases the risk the firm will not correct the underlying issue and therefore increase the likelihood the firm will repeat the mistake in the future, including in the firm’s next peer review.**

When systemic causes are vague or written too generally, it is difficult to identify a repeat finding. In the case of a repeat finding, the review team should read the prior review documentation, including the report, letter of response, and FFC forms, if applicable, and evaluate whether the firm’s planned actions noted on those forms were implemented. If the firm’s planned actions to remediate the prior review findings were implemented, and the same finding is occurring, the review team should determine the condition in, or compliance with, the firm’s system of quality control that caused the current finding.

Finally, failure to correct the systemic causes of any matter identified increases the risk the firm will have consecutive non-pass peer review reports. A firm that has consecutive non-pass reports may be referred to the Peer Review Board and their enrollment in the program could be terminated.

Interpretation 83-2 of PRP Section 2000 states, in part:

On System Reviews, a repeat finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it that is noted during the current review and also on a FFC form in the prior peer review.

### **SCENARIO B**

Luke August, a partner August & July, LLP (the firm), agreed to perform the audit of an Employee Benefit Plan (EBP). Mr. August did not audit any other EBPs and did not have the requisite experience to perform such an audit. As part of his audit, Mr. August did not have an EQCR as required by the firm's quality control document since it is in an industry of higher public interest.

During the firm's peer review, the engagement was selected for review. There were a number of issues identified. The peer reviewer documented the systemic cause as follows:

*"The firm did not comply with its policies and procedures regarding engagement acceptance and engagement performance."*

### **Question 1**

How should the systemic cause in the scenario be written to indicate a true systemic cause(s)?

### **Solution 1**

The statement above is very general and appears to encompass two issues: engagement acceptance and engagement performance. It would be more appropriate to separate the two issues as follows:

1. The firm did not comply with its engagement acceptance procedures because the selected engagement related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation/assistance.
2. The firm did not comply with its engagement performance policies which requires the performance of an EQCR of this engagement.

To determine the true systemic cause, the team captain should also consider why the firm did not comply with their quality control document. The team captain should discuss this with the firm and may want to consider whether:

- There is a tone at the top issue.
- Whether Mr. August was aware of the requirements within the QCD.
- Whether the firm lacked sufficient resources and/or time to follow.

## CASE #3

### System Reviews – Evaluating Letters of Response

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

**Estimated Time to Complete: 20 Minutes**

#### **SCENARIO A**

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report.

#### **Question 1**

When should the firm's draft letter of response be provided to the team captain?

#### **Solution 1**

**The firm's draft letter of response should be provided to the team captain as soon as possible (generally after the Closing Meeting but definitely prior to the Exit Conference).**

.98 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 team captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference.

#### **Question 2**

When should the team captain discuss the appropriateness of the firm's letter of response with the firm?

#### **Solution 2**

**The team captain should discuss the appropriateness of the firm's letter of response with the firm during the Exit Conference.**

.100 The team captain should review and evaluate the firm's 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 team captain. The team captain should include the firm's letter of response with his or her report and working papers submitted to the administering entity (see interpretations).

**SCENARIO B**

Review the provided Peer Review Report for Branson & Sawyer, LLP.

**Question 1**

Review the first letter of response provided. Evaluate the responses provided by the firm.

**Solution 1**

Discussion Leader Note: This example does not meet the requirements of the Peer Review Standards. Please discuss with your tables the way(s) the letter could be improved so that it is in accordance with Standards.

**Question 2**

Review the second letter of response provided. Evaluate the responses provided by the firm.

**Solution 2**

Discussion Leader Note: This example does meet the requirements of the Peer Review Standards. However, if participants at your table have suggested improvements, please discuss them.

# THORP & ASSOCIATES

## Report on the Firm's System of Quality Control

August 31, 2020

### Recipient Name

We have reviewed the system of quality control for the accounting and auditing practice of Branson & Sawyer, LLP (the firm) in effect for the year ended June 30, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### Firm's Responsibility

The firm is responsible for designing 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.

### Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

### Required Selections and Considerations

Engagements selected for review included an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### Significant Deficiencies Identified in the Firm's System of Quality Control

We noted the following significant deficiencies during our review:

1. The firm's quality control policies and procedures over engagement performance have not been suitably complied with to provide reasonable assurance that engagements are

consistently performed in accordance with professional standards. Although the firm has adopted and integrated within its quality control policies and procedures third party accounting and auditing practice aids, the firm did not adequately use and consult these practice aids. As a result, the following significant deficiencies were noted:

- a. insufficient inherent and control risk assessment for significant audit areas,
- b. lack of communications to those charged with governance,
- c. failure to test participant census data for an employee benefit plan,
- d. failure to evaluate going concern considerations,
- e. lack of documentation for sampling procedures,
- f. undocumented expectations in substantive analytical procedures, and
- g. missing financial statement disclosures related to revenue recognition.

In our opinion, these matters contributed to audit and review engagements that did not conform to professional standards in all material respects.

2. The firm's quality control policies and procedures addressing continuing professional education (CPE) have not been designed to provide reasonable assurance that its personnel will have the competence necessary to perform audits of employee benefit plans in accordance with professional and regulatory requirements. Although the firm's partners met state licensing requirements regarding CPE, the firm lacks appropriate procedures to determine whether the firm's personnel have obtained CPE that is relevant to the scope of the firm's practice. As a result, during our review we noted several engagement documentation and performance issues in an audit of an employee benefit plan. Specifically:

- a. not documenting tests of client internal controls to support their control risk assessment at less than high and not linking substantive procedures to the decreased risk assessment level, and selection methodologies were not documented nor linked to the risk assessment,
- b. not documenting the firm's understanding of information technology controls at the Plan sponsor level,
- c. not documenting consideration of complementary user controls identified in the SOC 1 report,
- d. not performing substantive procedures regarding the timing of remittance of participant contributions, not testing if distributions to participants were in accordance with the plan document, nor if the payment amount was correct and paid to the appropriate recipient.

In our opinion, these matters contributed to audit engagements that did not conform to professional standards in all material respects.

### **Opinion**

In our opinion, as a result of the significant deficiencies previously described, the system of quality control for the accounting and auditing practice of Branson & Sawyer, LLP in effect for the year ended June 30, 2020, was not suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional

standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Branson & Sawyer, LLP has received a peer review rating of *fail*.

Thorp & Associates

**Thorp & Associates**

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# Branson & Sawyer, LLP

August 31, 2020

To the National Peer Review Committee:

This letter represents our response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 2020. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.


The firm will modify its quality control policies and procedures to require an Engagement Quality Control Review (EQCR) over its ERISA engagements. Further, the firm will more closely monitor its continuing professional education (CPE) compliance.

These remedial actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings of the review.

Sincerely,

*Bruce L. Sawyer*





# Branson & Sawyer, LLP

August 31, 2020

To the National Peer Review Committee:

This letter represents our response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 2020. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

1. Risk of material misstatement is an important part of the audit planning that lay the foundation to our audit procedure response. We held a training session with our audit team on April 27, 2020 to discuss the importance of this planning step and the alignment of audit response to risk identified. The response to audit risk has been added to the working papers and documented.
2. We communicate with those charged with governance regarding important matters that arise during our audits. However, we acknowledge that requirements under AU-C 260 were not met. These requirements have been added to the working papers and documented. Our managing audit partner reviewed all templates related to communication with those charged with governance and the inclusion of this communication, as required by AU-C 260. They will be included in all audits.
3. During our audit team training, the managing audit partner instructed that testing of census data should always be documented. Documentation of census data testing was subsequently included in the employee benefit plan working papers. Current audits performed are being documented.
4. With respect to the fact that going concern consideration needs to be documented, regardless of the economic condition of the entity being audited, we included a memo expanding our documentation. Even though we consider and document going concern in other areas and audit programs, we have implemented a memo to assess and document going concern issues.
5. During our audit team training, the managing audit partner instructed that methodology of sampling should be documented and be consistent in every audit performed. Current audits performed are being properly documented.
6. During our audit team training, the managing audit partner instructed that expectations for substantive analytical procedures should be made in a separate document. Documentation regarding the expectations have been added to the working papers. The firm will implement these instructions in future reviews.

7. During our audit team training, the managing audit partner emphasized the disclosure requirements in the financial statements, especially for new pronouncements, including but not limited to revenues, leases, and others.
8. Effective immediately, we have modified our policy regarding continuing education to require annual continuing education for all engagement staff and partners who perform engagements in high risk audit practice areas such as audits of employee benefit plans.
9. For the next employee benefit plan audit, we will perform a detailed Engagement Quality Control Review (EQCR).

These remedial actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings of the review.

Sincerely,

*Bruce L. Sawyer*

## CASE #4

### System Reviews – Independence Considerations

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

**Estimated Time to Complete: 15 Minutes**

#### **SCENARIO A**

Davis and Bell, LLP had a peer review year of January 1, 2019 through December 31, 2019. As a result of this review, they were assigned a corrective action to have their next ERISA engagement undergo a pre-issuance review. Davis and Bell would like their peer reviewer, Rogers and Associates, to perform the pre-issuance review.

#### **Question 1**

Under peer review guidance, would Rogers and Associates be able to perform the pre-issuance review and still maintain their independence to perform Davis and Bell's next peer review?

#### **Solution 1**

**It depends. A reviewer would be considered independent if they perform the pre-issuance review on an engagement with a year ending (report date for financial forecasts, projections, and agreed upon procedures) *immediately* after the peer review year. In this example, the year after Davis and Bell's peer review year would be January 1, 2020 through December 31, 2020; the reviewer would be independent if they only performed pre-issuance reviews on engagements with year-end during this year.**

According to Interpretation No. 21-4, a reviewer would not be considered independent (and thus would not be eligible to perform the relevant peer review) if they perform the pre-issuance review on an engagement with a year ending immediately before the firm's next peer review year.

Interpretation 21-4:

*Question* – Firm A is engaged to perform the peer review of Firm B. However, Firm A performed a pre-issuance review on one of Firm B's reports and accompanying financial statements for an accounting or auditing engagement during the period since the last peer review year-end. Can Firm A perform the peer review of Firm B?

*Interpretation* – Yes, unless the pre-issuance review(s) was performed on an engagement within the year immediately preceding or during the peer review year.

#### **Question 2**

If the ERISA engagement on which the pre-issuance review would be performed had a year-end of March 31, 2021, would Rogers and Associates be able to perform the pre-issuance review and still maintain their independence to perform Davis and Bell's next peer review?

### ***Solution 2***

**No, the reviewer would not be independent (for the next peer review) if they performed pre-issuance reviews on engagements with years ending during the year immediately preceding the next peer review.**

Interpretation 21-4:

*Question* – Firm A is engaged to perform the peer review of Firm B. However, Firm A performed a pre-issuance review on one of Firm B's reports and accompanying financial statements for an accounting or auditing engagement during the period since the last peer review year-end. Can Firm A perform the peer review of Firm B?

*Interpretation* – Yes, unless the pre-issuance review(s) was performed on an engagement within the year immediately preceding or during the peer review year.

### ***Question 3***

If the ERISA engagement on which the pre-issuance review would be performed had a year-end of March 31, 2022, would Rogers and Associates be able to perform the pre-issuance review and still maintain their independence to perform Davis and Bell's next peer review?

### ***Solution 3***

**No, the reviewer would not be independent (for the next peer review) if they performed pre-issuance reviews on engagements with years ending during the next peer review year.**

Interpretation 21-4:

*Question* – Firm A is engaged to perform the peer review of Firm B. However, Firm A performed a pre-issuance review on one of Firm B's reports and accompanying financial statements for an accounting or auditing engagement during the period since the last peer review year-end. Can Firm A perform the peer review of Firm B?

*Interpretation* – Yes, unless the pre-issuance review(s) was performed on an engagement within the year immediately preceding or during the peer review year.

## ***SCENARIO B***

Davis and Bell, LLP had a peer review year of January 1, 2019 through December 31, 2019. As a result of this review, they were assigned a corrective action to have their next non-carrying broker-dealer engagement undergo a post-issuance review. Davis and Bell would like their peer reviewer, Rogers and Associates, to perform the post-issuance review.

### ***Question 1***

Under peer review guidance, would Rogers and Associates be able to perform the post-issuance review for an engagement with a year ended June 30, 2021 and still maintain their independence to perform Davis and Bell's next peer review?

### ***Solution 1***

**No, the peer reviewer would not be independent to perform the next peer review because the post-issuance review would be performed in the year immediately preceding the peer review year.**

A post-issuance review of an engagement is akin to monitoring, inspection review, and/or a consulting review (on a single engagement). This is covered by Interpretation 21-12.

Interpretation 21-12:

*Question* – Can an individual from Firm A be engaged by Firm B to perform a peer review of Firm B and subsequently be engaged the following year(s) to conduct an inspection of Firm B’s accounting and auditing practice or a consulting review? What about another individual from Firm A?

*Interpretation* – In both cases, yes; however, individual(s) from Firm A would not be eligible to perform Firm B’s subsequent peer review except as noted in Interpretation No. 21-2.

## CASE #5

### System Reviews – Establishing a Peer Review Year-End

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

**Estimated Time to Complete:** 15 Minutes

#### **SCENARIO A**

Katy Shipman, CPA, is the Quality Control Director at Gladwell LLP (the firm). One of her responsibilities is to serve as the peer review contact for the firm's peer review. Claire Kay, CPA, has been the firm's peer reviewer for the past three reviews. Ms. Shipman and Ms. Kay are reevaluating the firm's year-end, which is currently December 31, 2021, to decide whether it is appropriate for the firm's practice. In prior reviews, the firm's EBP audits are not close to being complete in time for the peer review, so the prior year's EBPs have been reviewed. Ms. Shipman appreciates the feedback from the peer review and would like to make the changes Ms. Kay recommends before the subsequent engagements are performed.

The firm's prior year-end was December 31, 2018 with a due date of June 30, 2019. The current due date is June 30, 2022. During the current year, the firm performed the following engagements:

Industry	Number of Engagements Performed	Year-end	Report Issuance Date
Single Audit	25	6/30/2021	3/31/2022
EBP (includes DC, DB, and H&W plans)	26	12/31/2021	10/15/2022
Other Audits	33	12/31/2021	4/30/2022
Reviews	3	12/31/2021	Varies
Compilations	30	12/31/2021	Varies

#### **Question 1**

Based on the information above, what factors would you consider in determining whether the firm should change their year-end?

#### **Solution 1**

**Factors that should be considered when determining whether or not to change the firm's year-end include:**

- **Nature of the practice- the firm has concentrations in two high-risk industries (Single Audits and employee benefit plans)**
- **Due dates for EBPs and Single Audits are generally 9 months from the financial statement year-end**
- **The due date of the firm's current peer review is June 30, 2022**
- **With the current due date, the EBPs would not be complete at the time the review is due.**

Interpretation 18-1 of PRP Section 200 states, in part:

“a firm may change its year-end only with prior, written approval of the administering entity.

Administering entities will consider many factors including the nature of the firm’s practice (for instance, when audits are being performed and issued so they will be available for the peer review, tax season, and so on). However, a change in year-end will usually not be approved when there is a public interest concern. This may occur when the firm is requesting the change in an attempt to have an Engagement Review rather than a System Review, or when a change in year-end would cause the firm’s only engagement meeting the criteria described in Interpretation No. 63-1, (engagements conducted in accordance with Government Auditing Standards; audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA); audits of an insured depository institution subject to the FDIC Improvement Act of 1991; or examinations of service organizations (SOC 1® and SOC 2® engagements) to fall out of the peer review selection process.”

Note a change in year-end does not automatically result in a due date extension. The firm will need to request an extension separately. Additionally, it is the firm’s responsibility to notify their state board of accountancy of the year-end change and due date extension, if applicable. If the firm performs engagement under Generally Accepted Governmental Auditing Standards, they should notify the Government Accountability Office of due date extensions beyond three months.

### **Question 2**

If you were Ms. Kay, what would you recommend to Ms. Shipman for the firm’s year-end?

### **Solution 2**

**Ms. Kay may want to consider suggesting the firm request a year-end change to April 30, 2022 or May 31, 2022. Since the peer review due date is based on the prior review year-end, the firm should also request an extension. This change would allow the firm and review team adequate time to complete the engagement and complete an engagement review and wrap up the review. Since a year-end change is permanent, the firm would not have to request an extension in the future.**

Paragraph .15 of PRP Section 1000 states: “A firm’s subsequent peer review ordinarily has a due date of three years and six months from the year-end of the previous peer review.”

Paragraph .18 of PRP Section 1000 states: “A firm is expected to maintain the same year-end on subsequent peer reviews (which is three years from the previous year-end) and the same review due date (which is three years from the previous review due date) (see interpretations).”

### SCENARIO B

Levitt LLP (the firm) is a CPA firm with a large tax practice. The firm's A&A practice consists of:

Industry	Number of Engagements Performed	Year-end	Report Issuance Date
Other GAS	7	6/30/2021	12/31/2021
EBP	1	12/31/2021	10/15/2022
Reviews	3	9/30/2021	Varies
Compilations	30	12/31/2021	Varies

#### Question 1

Since the firm has a large tax practice and is very busy during the traditional busy season, what would you recommend for the firm's peer review year-end?

#### Solution 1

The firm should consider December 31, 2021 as their year-end because going forward, the due date would be June 30, 2022. This due date gives the firm the ability to have the peer review after the tax busy season, but in time for the firm to identify issues impacting the GAS practice before starting the audits for the next year. The review could look at the prior year EBP plan audit, assuming there were no significant changes in the audit requirements from one year to the next. If there were significant changes in EBP audits, the team captain may want to consider requesting an extension so that the 12/31/2021 EBP could be reviewed in that particular review.

### Scenario C

Harley, LLP's A&A practice consists of the following:

Industry	Number of Engagements Performed	Year-end	Expected Report Issuance Date
Single Audit	25	6/30/2021	3/31/2022
EBP (includes DC, DB, and H&W plans)	26	12/31/2021	10/15/2022
Other Audits	33	12/31/2021	4/30/2022
Reviews	3	12/31/2021	Varies
Compilations	30	12/31/2021	Varies

The firm's year-end is for its upcoming peer review is May 31, 2022. In normal years, the firm's EBPs are complete prior to the peer review due date. However, delays caused by the COVID-19 pandemic have caused delays which mean the engagements will not be completed in time for the review.

#### Question 1

Should the firm request a year-end change so that the engagements under review are the prior year engagements?



### ***Solution 1***

**No, the firm should not request a year-end change because a year-end change is considered permanent. The delays caused by COVID-19 are temporary and not expected to impact the timing of the work on future peer reviews.**

Paragraph .18 of PRP Section 1000 states: “A firm is expected to maintain the same year-end on subsequent peer reviews (which is three years from the previous year-end) and the same review due date (which is three years from the previous review due date) (see interpretations).”

### ***Question 2***

What should the firm do if a majority of the engagements subject to peer review are not complete at the time the review is scheduled?

### ***Solution 2***

**The firm should consult with their peer reviewer and administering entity about whether it is appropriate to request a due date extension.**

Interpretation 18-1 of PRP Section 200 states:

Situations may arise when circumstances out of a firm’s control, such as a natural disaster or other catastrophic event, affect a firm’s ability to comply with some or all of the peer review requirements, including timing of the peer review. What should a firm do in those specific circumstances?

Interpretation — The administering entity should be consulted, when possible, about how the firm believes the situation has affected or will affect its peer review or its ability to perform scheduled peer reviews (if applicable). If the situation affected both the firm’s operations and its ability to comply with peer review requirements, the firm should discuss the following with the administering entity:

- The firm’s current peer review year-end and due date
- The extent of damage to the firm’s office(s) and the working papers subject to peer review, if applicable (this would include off-site storage or data retention facilities that house working papers subject to peer review)
- The availability, or lack thereof, of personnel that performed engagements subject to peer review
- The firm’s ability to continue operating and performing engagements subject to peer review
- If known, whether the firm’s scheduled peer reviewer was also impacted
- The amount of time the firm deems necessary before it would be ready to undergo a peer review

The administering entity will assist in determining whether there could be a possible scope limitation due to the exclusion of any affected engagements or offices, the need for a change in year-end or an extension of due date, and the effect on the firm’s continuing peer review cycle. These situations will be considered on a case-by-case basis.

If the firm’s peer review already commenced and the continued performance of the peer review is impacted, the firm should notify its administering entity as soon as reasonably possible. The administering entity will assist in determining the best course of action.

If the situation did not directly affect the firm's operations but has impacted the firm's ability to comply with peer review requirements (that is, the firm's scheduled peer reviewer was directly affected and may no longer be able to perform the peer review), the firm should consult with its administering entity. The administering entity will assist the firm in determining whether it is appropriate to extend the peer review due date or if the firm should engage another firm to perform its peer review. In making this determination, the administering entity will consider the following:

- The firm's peer review year-end and the timing of when engagements falling within the peer review year are performed
- The length of time between the timing that the situation arose and the firm's due date
- The amount of time that the currently scheduled peer reviewer or review team would need before being able to perform the peer review
- Whether the firm has very specialized industries or types of engagements

If the firm performs peer reviews and a review is scheduled that the firm will be unable to perform by the reviewed firm's due date (or at all), the reviewing firm should communicate this information to the reviewed firm and the administering entity as soon as reasonably possible. Contacting the reviewed firm and the administering entity is especially important when the peer review has commenced but the reviewing firm has doubts about its ability to complete the review.

## CASE #6

### System Reviews – Evaluating Peer Review Implications of ASC 606 Implementation

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

**Estimated Time to Complete: 15 Minutes**

#### **SCENARIO A**

You are the peer reviewer for firm XYZ, a sole practitioner that performs one audit for a non-public company. You select this audit for review procedures, noting the financial statements were issued on March 31, 2020 and were for the period of January 1, 2019 – December 31, 2019. The client did not implement ASC 606, *Revenue Recognition*, and there was no evidence the standard was considered.

#### **Question 1**

Would this constitute a nonconforming engagement?

#### **Solution 1**

**Yes. If the firm's client did not implement ASC 606 for financial statements when required and the reviewed firm did not perform any assessment related to its impact before the issuance of the financial statements, the engagement should be considered nonconforming. Even if it is determined after issuance (e.g., as a result of a peer review) that the impact would have been immaterial, the engagement would still be considered nonconforming.**

For non-public entities, ASC 606 was initially required for reporting periods beginning after December 15, 2018. In May 2020, the FASB delayed the effective date for annual reporting periods beginning after December 15, 2019 for entities that had not yet issued financial statements. Delaying implementation was optional.

The FASB's action resulted in a period of time when ASC 606 was required for entities with a reporting period beginning after December 15, 2018 that *issued financial statements* prior to the FASB decision on June 3, 2020.

#### **SCENARIO B**

You are the peer reviewer for firm XYZ, a sole practitioner that performs one audit for a non-public company. You select this audit for review procedures, noting the financial statements were issued on March 31, 2020 and were for the period of January 1, 2019 – December 31, 2019. The client did not implement ASC 606, however, it was evident from the firm's working papers that prior to the issuance of the related financial statements, it was determined the impact of the new standard would be immaterial.

#### **Question 1**

Would this constitute a nonconforming engagement?

***Solution 1***

**Probably not. If the client did not implement (or partially implemented) the standard because it had determined the impact was immaterial, it is likely the engagement is not non-conforming.**

The reviewed firm should be able to provide evidence of its consideration of the client's evaluation to the extent required by the relevant professional standards.

Since ASC 606 is a relatively new pronouncement, there are acceptable variations of application in practice. You should avoid basing a "no" answer on a personal preference; rather, you should identify unreasonable judgments that lack support under professional standards.

**SCENARIO C**

You are the peer reviewer for firm XYZ, a sole practitioner that performs one audit for a non-public company and one compilation with disclosures. You select both engagements for review, noting they each had financial statement issuance dates of March 31, 2020 and were for the period of January 1, 2019 – December 31, 2019.

***Question 1***

On the audit, the client properly considered ASC 606 and determined it would be material to the financial statements. As such, they implemented the standard, but lacked some of the required disclosures. Would this constitute a nonconforming engagement?

***Solution 1***

**It depends. If the accounting treatment for ASC 606 is appropriate, and, in the reviewer's judgment, the missing disclosures are not material to the overall presentation of the financial statements, the reviewer could probably conclude the engagement is conforming. If, in the reviewer's judgment, the missing disclosures are material to the overall presentation of the financial statements, the reviewer should conclude the engagement is nonconforming.**

As a reminder, you should consider review procedures in the aggregate. For example, if a firm early implemented ASC 606 but made a material error in that implementation, the engagement should be deemed nonconforming.

***Question 2***

On the compilation with disclosures engagement, the client did not implement ASC 606 and, when reviewing the firm's working papers, there was no documentation the reviewer came across in the normal course of the review that would indicate consideration of the standard. However, the impact of ASC 606 on the client's financial statements is immaterial. Would this constitute a nonconforming engagement?

***Solution 2***

**Probably not. 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. Since nothing came to the reviewer's attention during the review of the compilation, there would be no basis for which to call the engagement nonconforming.**

Discussion Leader Note: It may help to note procedures for a compilation are to consider whether they are “free from obvious material misstatements”; during the normal course of reviewing a compilation, if nothing comes to the reviewer’s attention that there is an obvious material misstatement, the reviewer wouldn’t ordinarily ask about revenue recognition policies prior to ASC 606, so there would be no expectation for them to do that in this situation.

If a reviewer does ask the firm about ASC 606 and it is clear it was not considered, the engagement should be deemed nonconforming. If the reviewer asked the firm about ASC 606 and it is clear the firm knew it was applicable, the reviewer could overcome any concerns by inquiry alone.

## CASE #7

### System Reviews – Aggregating Matters and Systemic Causes

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

**Estimated Time to Complete: 15 Minutes**

You are the team captain on the system review of Firm ABC. You have noted four instances of non-compliance that you intend to place on between 1 to 4 MFC forms. Based on your analysis, each of the issues occurred due to the same systemic cause.

#### **Question 1**

Do each of the issues need to be on the same MFC form?

#### **Solution 1**

**No, while it may be appropriate in the circumstances, there is no peer review guidance that mandates that matters with the same systemic cause be included in the same MFC form.**

Paragraph .70 a. of PRP Section 1000 states: A peer reviewer notes a matter as a result of his or her evaluation of the design of the reviewed firm's system of quality control or tests of compliance with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm's system of quality control. Matters are typically one or more "No" answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm's system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form.

In terms of aggregating matters, paragraph .75 of PRP Section 1000 states, in part: To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures. The review team should consider the relative importance of the matters to the firm's system of quality control as a whole, including the nature, systemic causes, pattern, and pervasiveness, to determine the impact to the peer review report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.

#### **Question 2**

If one of the matters is determined to be, by itself, a finding, should the other matters be included in the FFC form, as they have the same systemic cause?

#### **Solution 2**

**The aggregation of matters with the same systemic cause into a single finding (FFC form) is appropriate in a system review and team captains are encouraged to**

**do whenever possible. Staff and the PRB recognize, however, that this may not be appropriate in all cases and therefore, it is not required.**

Paragraph .70 b. of PRP Section 1000 states: A finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer 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.

### **Question 3**

If one of the matters is ultimately determined to be, by itself, a deficiency, do the other matters need to be included as a deficiency in the peer review report, as they have the same systemic cause?

### **Solution 3**

**Similar to question 2, the other matters do not necessarily need to be included in the peer review report even though they have the same systemic cause, although the team captain may determine that it is appropriate to do so. For example, the team captain may determine that the other matters shouldn't be considered findings, let alone part of a deficiency.**

Paragraph .70 c. of PRP Section 1000 states: A deficiency is one or more findings that the peer reviewer has concluded, due to the nature, systemic causes (see paragraph .75), pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of pass with deficiencies.

It is certainly possible for a team captain, based on professional judgment exercised, to have a finding and a deficiency with the same systemic cause. We strongly discourage, however, having two deficiencies listed in the peer review report with the same systemic cause as it would likely be appropriate for these to be combined.

The PRB encourages report acceptance bodies (RABs) to not defer accepting peer reviews for the situations described in question 2 and question 3 as long as the systemic cause and issue is clear and the RAB doesn't believe the peer reviewer has made an error in identifying the systemic cause. The identification of the systemic cause is the key to the discussion as that allows the firm the best opportunity to improve going forward.

## CASE #8

### System Reviews – Peer Review Risk Assessment

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

**Estimated Time to Complete: 15 Minutes**

#### **Introduction**

Peer review risk is the risk the peer review team may:

- fail to identify significant weaknesses in the reviewed firm's system of quality control, its lack of compliance with the system, or a combination thereof,
- issue an inappropriate opinion, or
- reach an inappropriate decision about the matters to be included in, or excluded from, the review report.

#### **Question 1**

During what phase of the peer review should the reviewer assess peer review risk? What sources of information should the review team use to assess peer review risk?

#### **Solution 1**

**The peer reviewer should first assess peer review risk during the planning phases of the peer review. The review team may uncover information during the course of the peer review that may influence the peer reviewer's assessed levels of risk.**

**The review team should use the understanding it has obtained of the reviewed firm's accounting and auditing practice and its system of quality control to assess the inherent and control risks.**

**When assessing risk, the review team should evaluate the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the requirements contained in SQCS No. 8. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.**

The PRPM states:

.49 In planning the review, the review team should use the understanding it has obtained of the reviewed firm's accounting and auditing practice and its system of quality control to assess the inherent and control risks. The assessment of risks is qualitative and not quantitative. The lower the inherent and control risk, the higher the detection risk that can be tolerated and vice versa. Based on its assessment of inherent and control risk, the review team determines the acceptable level of detection risk.

.50 When assessing risk, the review team should evaluate the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the requirements contained in SQCS No. 8. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately



comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

### **Question 2**

What is the relationship between peer review risk and the nature and extent of the testing performed in a peer review, including the review of selected engagements?

### **Solution 2**

**The review team should consider the combined assessed levels of inherent and control risk when selecting offices and engagements to be reviewed, as well as other procedures to be performed. The higher the combined assessed levels of inherent and control risk, the higher the peer review risk. With higher levels of peer review risk, the more extensive peer review testing should be, which reduces the level of detection risk.**

The PRPM states:

.51 The review team should consider the combined assessed levels of inherent and control risk when selecting offices and engagements to be reviewed. The higher the combined assessed levels of inherent and control risk, the higher the peer review risk. To reduce the peer review risk to an acceptable low level, the detection risk needs to be low, and thus the greater the scope (that is, the greater the number of offices that should be visited or the greater the number of engagements that should be reviewed, or both). Conversely, the lower the combined assessed levels of inherent and control risk, the smaller the scope that needs to be considered for review. The combined assessed levels of inherent and control risk may vary among offices and engagements so that the scope may be greater for some types of offices and engagements than for others.

.52 However, even when the combined assessed levels are low, the peer review team must review some engagements to obtain reasonable assurance that the reviewed firm is complying with its quality control policies and procedures and applicable professional standards. For the review team to obtain such assurance, a reasonable cross section of the reviewed firm's accounting and auditing engagements must be reviewed or inspected, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk (see interpretations).

### **Question 3**

What are some examples of factors to consider when assessing inherent risk?

### **Solution 3**

**Some examples of factors to consider when assessing inherent risk are:**

- **The relationship of the firm's audit hours to total accounting and auditing hours.**
- **The size of the firm's major engagement(s), relative to the firm's practice as a whole.**
- **The industries in which the firm's clients operate, especially the firm's industry concentrations.**
- **The results of the prior peer review.**
- **The actions of the firm in response to the prior report and FFC(s).**
- **The results of any regulatory or governmental oversight or inspection procedures.**

- Extent of non-audit services performed for audit clients,
- Changes in professional standards and/or regulatory requirements.
- Adverse economic developments in an industry in which one or more of the firm's clients operate.
- Changes in the firm's structure or personnel since the prior peer review.

**Question 4**

What are some examples of factors to consider when assessing control risk?

**Solution 4**

The results of the reviewer's assessment of the firm's design of and compliance with its system of quality control (in accordance with AICPA professional standards) provide the peer reviewer with information necessary to assess control risk. Example considerations:

- "No" answers on the *Guidelines for Review of Quality Control Policies and Procedures* checklist.
- The firm's CPE policy and philosophy towards education.
- The adequacy of the firm's professional library.
- The firm's engagement acceptance policy.
- The firm's EQCR policy and procedures.
- The firm's monitoring procedures.
- The firm's hiring and evaluation policies and procedures.
- The firm's quality control materials.

**Question 5**

Have you heard about the new Peer Review Risk Assessment Tool?

**Solution 5**

If not, now you have! In October 2020, the Peer Review Program Manual added section 24,150, *Peer Review Risk Assessment Tool*. This tool is available on the peer review website via the Practice Management Toolkit and is a great resource for peer reviewers when assessing peer review risk.

## CASE #9

### System Reviews – ERISA Engagement Selection

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

**Estimated Time to Complete: 15 Minutes**

You are performing the peer review of ABC & Company, LLP (the firm). You are assessing the engagement selections for the peer review, including ERISA. You are aware that engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk (Int 63-1b).

#### **Question 1**

The following chart provides ERISA engagement information for ABC & Company, LLP. Which engagement(s) would you select for review?

<b>Client Code</b>	<b>Engagement Type</b>	<b>Engagement Hours</b>
123451	Defined Contribution Plan (DCP) (excl. 403b) – Full scope	75
123452	DCP (excl. 403b) – Full scope	23
123453	DCP (excl. 403b) – Limited scope	68
123454	DCP (excl. 403b) – Limited scope	76
123455	DCP (excl. 403b) – Limited scope	90
123456	403b Plan – Limited scope	85
123457	Defined benefit – Limited scope	70
123458	Defined benefit – Limited scope	68
123459	ESOP	88
123460	ESOP	87
120461	Health & Welfare	70

- A. I would select one of each type of engagement.
- B. I would select one defined contribution plan and one defined benefit plan.
- C. I would select a defined contribution plan and review selected aspects of the other types of plans.

#### **Solution 1**

**Note to Presenters: There may be multiple correct answers for this question.**

#### **Question 2**

According to the Standards, should one of each type of ERISA engagement the firm be selected for review procedures?

### **Solution 2**

**No, one of each type of ERISA engagement the firm performs does not have to be selected. Interpretation 63-1b states that “if a firm performs the audit of one or more entities subject to ERISA, at least one such audit engagement conducted pursuant to ERISA should be selected for review.”**

*Interpretation 63-1b: Employee Benefit Plans – Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to ERISA. Therefore, if a firm performs the audit of one or more entities subject to ERISA, at least one such audit engagement conducted pursuant to ERISA should be selected for review.*

### **Question 3**

When thinking about ERISA engagements, what are some factors to consider when assessing peer review risk?

### **Solution 3**

**Interpretation 59-1b outlines some of the factors that should be considered when assessing the peer review risk associated with ERISA engagements; see guidance below.**

**Additionally, reviewers should consider the unique risks associated with different types of ERISA plans when making their selections. Some of these risks are listed below:**

- **Defined contribution plans – participant account and allocation testing and timely remittance of participant contributions**
- **Defined benefit plans – actuarial present value of accumulated plan benefits and changes in the actuarial present value of accumulated plan benefits**
- **ESOP – annual appraisal of securities and leveraged ESOPs**
- **Health and welfare plans – benefit obligations and changes in benefit obligations (for example, claims payable but not reported, postemployment benefits, postretirement health care benefits, etc.).**

*Int 59-1b: For employee benefit plans under ERISA, the peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in limited versus full scope audits and in different types of benefit plans such as defined benefit, defined contribution, and voluntary health and welfare plans. If a firm has more than one of the preceding types of plans, the reviewer must consider the unique risks associated with that type of plan and document how these risks were addressed in the risk assessment. Peer reviewers should also consider audit firm experience such as how many ERISA audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on ERISA engagements. Further consideration should be given to communications from regulatory agencies.*

### **Question 4**

Where should the rationale for engagement selection be documented?

**Solution 4**

**The rationale for engagement selection should be documented in the Summary Review Memorandum.**

For example, Interpretation 59-1 specifically addresses when the review team makes the decision not to review a particular engagement. It states, "The reviewer should explain and document in the Summary Review Memorandum key decisions that he or she made when he or she chose not to select any one or more of the following: a level of service, industries in which a significant public interest exists, and industries in which the firm performs a significant number of engagements. This does not give authority to the reviewer to avoid selecting an engagement(s), such as but not limited to must selects for example by simply documenting the reason(s) why he or she did not select certain engagement(s)."

## CASE #10

### System Reviews – Evaluation of Submitted Peer Review Documentation

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

**Estimated Time to Complete:** 15 Minutes

Hawksy & Sand LLP was peer reviewed by Mouseville LLP for the year-ended December 31, 2019. The team captain, Eric Mouseville, held an exit conference with the firm on May 1, 2020 and submitted peer review documentation to the administering entity, Coastal Society of CPAs, shortly thereafter. The team captain did not identify any issues in the review that would rise to the level of a matter, finding or deficiency, which is consistent with results of past peer reviews. Consider the facts and review summary below and refer to attachments A and B for the peer review report and firm representation letter.

Engagement Type	Total Firm Engagements	Engagements Reviewed	Non-conforming Engagements
Single Audit engagements	3	1	-
All others subject to GAS	10	1	-
Defined Contribution (excluding 403(b))	8	1	-
Other SAS engagements	2	2	-
Reviews	15	1	-
SOC 2 Reports	1	1	-

Answer the following questions after reviewing attachments A and B, drawing from your own experience with the report acceptance process.

#### **Question 1**

What questions or requests for revisions may result from the technical reviewer or Report Acceptance Body (RAB) regarding the peer review report? Discuss any assumptions due to the limited fact pattern.

#### **Solution 1**

**Based on the fact pattern in Scenario A, the technical reviewer or RAB will likely request a revised report with a correction to the must-select and opinion paragraphs.**

The peer review year-end in the Opinion paragraph should be December 31, 2019 and the must-select paragraph of the peer review report should be consistent with the types of engagements and number selected.

Even though no issues were identified with the selected SOC engagement, a technical reviewer or RAB may inquire about whether the review summary is correct due to inconsistency between the review summary, report, and representation letter.

Assuming the statistics in the review summary are correct, the must-select paragraph should read:

*“Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; an audit of an employee benefit plan, and an examination of a service organization [SOC 2 engagement].”*

According to footnote 4 in the Illustration of a Report With a Peer Review Rating of Pass in a System Review in Appendix C of PRP Section 1000, the must-select paragraph should be tailored to reflect the type(s) selected for review and to indicate if single or multiple engagements were selected for review (for example, an audit versus audits).

**Instructor Note: Recurring comments from RAB observations have shown instances where report language is not consistent with current standards. The purpose of this case is to demonstrate the importance of thoroughly reviewing peer review documentation for accuracy before submitting to an administering entity for acceptance. Conflicting or inconsistent documentation is likely to cause a RAB to spend extra time discussing a review and may lead to delayed or deferred acceptance, and/or issuance of reviewer performance feedback.**

### **Question 2**

Assume the review summary is correct. What revisions may be requested by the technical reviewer or RAB regarding the firm representation letter?

### **Solution 2**

**Based on the fact pattern and review summary which indicates no issues were identified during the review, a technical reviewer or RAB will likely inquire about the accuracy of language regarding regulatory non-compliance matters, reference to remedial plans for non-conforming engagements, and the types of engagements performed by the firm.**

Assuming the firm used the wrong illustration in error, the following corrections should be considered regarding the representation letter based on the *Illustration of a Representation Letter That Has No Significant Matters to Report to the Team Captain for a System Review* in Appendix B of PRP Section 1000:

- The date of the representation letter should be the same as the exit conference (May 1, 2020).
- Language stating the firm did not have a practice unit license during the year under review should be removed.
- “Compliance audits under the Single Audit Act” should be included in the list of must-select categories.
- The must-select category for SOC engagements should only note SOC-2 engagements.
- The paragraph referencing the firm’s remedial plans for non-conforming engagements should be removed.
- The representation letter should be signed by an individual from management of the firm, rather than the firm name.

**Instructor Note:** This example appears to involve a “straight-forward” review, which can result in a lack of attention to detail when finalizing peer review documents. Similar to the discussion points in Question 1, recurring comments from RAB observations have shown instances where firm representation letters are not consistent with the appropriate illustration from appendix B of the standards. Again, the purpose of this case is to demonstrate the importance of thoroughly reviewing peer review documentation for accuracy before submitting to an administering entity for acceptance.

***Question 3***

Is it appropriate for the RAB to consider issuing reviewer performance feedback to the team captain based on the issues identified in the submitted peer review documentation? What is the purpose of issuing reviewer performance feedback?

***Solution 3***

**Yes. The number of corrections required to the documents submitted appear to indicate a lack of a comprehensive self-review of working papers before submitting the documents to the administering entity. This would be considered a reviewer performance finding where the reviewer did not present the report in standard form in accordance with peer review guidance and documentation submitted required revisions. The purpose of issuing reviewer performance feedback is to document specific areas of needed improvement.**

Since the fact pattern does not highlight any past performance weaknesses, a reviewer performance finding is appropriate, which is intended to serve as a reminder to the team captain to review documents for accuracy before submission. Alternatively, if the RAB concluded the issues were inconsequential, reviewer performance feedback should not be issued.

**Per Chapter 8, Section IV. B. of PRP Section 3300 (RAB Handbook):**

“The purpose of issuing a reviewer performance feedback form is to document specific areas of needed improvement. Reviewer performance feedback forms also help the AE and staff monitor the performance of the reviewer, including whether there is a pattern of reviewer performance findings. Deficiencies or findings noted on reviewer performance feedback forms should be substantiated by peer review guidance. Completion of the explanation section of the reviewer performance feedback form or other written correspondence with the reviewer (which is retained with the reviewer performance feedback form) is required to ensure that the reviewer understands the reviewer performance deficiencies or findings.”



## **Case #10 – Attachment A: Peer Review Report (on Firm Letterhead)**

### **Report on the Firm’s System of Quality Control**

May 1, 2020

To the Partners of Hawksy & Sand LLP and the Peer Review Committee of the Coastal Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Hawksy & Sand LLP (the firm) in effect for the year ended December 31, 2019. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

#### **Firm’s Responsibility**

The firm is responsible for designing 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.

#### **Peer Reviewer’s Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review.

#### **Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

## Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Hawksy & Sand LLP in effect for the year ended December 31, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Hawksy & Sand LLP has received a peer review rating of *pass*.

*Mouseville LLP*

## Case #10 – Attachment B: Firm Representation Letter (on Firm Letterhead)

April 29, 2020

To the Team Captain, Eric Mouseville:

We are providing this letter in connection with the peer review of Hawksy & Sand LLP as of the date of this letter and for the year ended December 31, 2019.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which Hawksy & Sand LLP 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, audits of broker-dealers, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable. We understand that failure to properly include engagements subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have 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. Audits of employee benefit plans
3. Examinations of service organizations (SOC 1 and SOC 2 engagements)

We confirm that we will implement the remedial plans for nonconforming engagements stated in our response to Finding for Further Consideration Form 1.

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, 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,

*Richard M. Hawksy*

## CASE #11

### System Reviews – Review Acceptance and Disagreements

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

**Estimated Time to Complete:** 15 Minutes

Team Captain A was just about to call her administering entity for a status update on a peer review that she had submitted when she received notification that the RAB had deferred the acceptance of the peer review. Specifically, the RAB wanted Team Captain A to provide additional information on the FFCs and MFCs. In getting further clarification from the technical reviewer, Team Captain A learned that the RAB was inclined to delete the two FFCs and MFCs based on what Team Captain A had originally submitted.

Team Captain A was confused. She was unsure why the RAB had wanted the FFCs to be deleted as she was certain the firm had not complied with the professional standards as outlined in the FFC.

#### **Question 1**

What causes the acceptance of a peer review to be deferred?

#### **Solution 1**

**According to the RAB Handbook, the acceptance of certain peer reviews is deferred when the RAB is unable to reach a decision on whether to accept the peer review as submitted by the peer reviewer based on what the peer reviewer had provided.**

Specifically, according to the RAB Handbook (PRPM Section 3300), “if the review is presented to the RAB and the unresolved questions are significant enough that no decision can be made by the RAB until further information is received from the reviewer or reviewed firm, a “deferral letter” should be sent. The deferral letter advises the applicable party(ies) that the RAB has considered the review and decided to defer the acceptance of the report because of the unresolved questions related to the review. It advises the parties that once the questions have been resolved, the review will be sent back to the RAB for further consideration.”

Common reasons for deferred acceptance include:

- unclear matters, findings, deficiencies
- insufficient testing, most commonly insufficient engagement selections
- insufficient documentation, particularly as it relates to conclusions reached and the extent of work performed. For example, if the peer reviewer’s risk assessment is so vague that it is unclear if the peer reviewer performed enough testing to reduce peer review risk to an acceptable level, the RAB is likely to defer the acceptance of the peer review.

In this scenario, the review was deferred as the RAB concluded that the MFCs and FFCs were not necessary, based on the work papers submitted by the peer reviewer.

## **Question 2**

How can a peer reviewer avoid having the acceptance of their peer review be deferred?

### **Solution 2**

**While there is no way to guarantee that the acceptance of a peer review won't be deferred, peer reviewers that comply with the peer review documentation requirements are more likely to not have the acceptance of reviews deferred.**

Paragraph .24 of PPRM Section 1000 (AICPA Standards for Performing and Reporting on Peer Reviews) states, "Peer review documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. The documentation provides evidence of the work performed and is the basis for the review of the quality of the work. It should demonstrate that the peer reviewer complied with these standards and should support the basis for the peer reviewer's conclusions. Also, the documentation should be appropriately organized to provide a clear link from the working papers to the peer review report."

The more thorough and easier to understand the peer review workpapers are, the easier the report acceptance process will likely be. Additionally, addressing any questions from the technical reviewer in a thorough, thoughtful manner will assist in this process.

This scenario does not provide enough information to state specifically what, if anything, the peer reviewer could have done to avoid having the peer review be deferred.

## **Question 3**

What resources are available to the peer reviewer if they disagree with a decision of the RAB?

### **Solution 3**

**There are many resources available to peer reviewers if they disagree with a decision made by a RAB. Peer reviewers shouldn't necessarily default to accepting the RAB's decision, and avenues exist where peer reviewers can further defend their positions, if deemed appropriate.**

Resources available to the peer reviewer include:

- Your administering entity's technical reviewer – The technical reviewer for your administering entity can be an excellent resource for gaining a better understanding of the RAB's decision. What may be unclear in the letter outlining the RAB's decision can oftentimes be cleared up with a conversation with the technical reviewer. Conversations with the technical reviewer can possibly result in the review getting re-presented to a RAB, without having to go through the more formal disagreement process.
- The peer review hotline – 919.402.4502. Peer review staff members can assist peer reviewers with peer review specific questions or topics such as:
  - The proper aggregation of matters, findings, deficiencies, and significant deficiencies
  - How to properly document the conclusions reached by the peer reviewer
  - How the disagreement process outlined in PRPM 3300, *RAB Handbook*, works.

- The issue advisory hotline – 919.402.4650. This hotline was established for the primary purpose of advising a peer reviewer and a reviewed firm regarding the application of established accounting and auditing guidance. That is, if an issue arises during a peer review as to whether the reviewed firm appropriately applied authoritative guidance on a selected engagement, the peer reviewer and the reviewed firm would be able to call the Hotline together and discuss the issue with a member of our Accounting & Auditing team. Any guidance provided by the hotline is non-authoritative and the peer reviewer is still ultimately responsible for determining if the firm complied with the relevant professional standards. While this hotline was not necessarily intended to address disagreements between the RAB and a peer reviewer, a member of the RAB or the technical reviewer may be willing to call the hotline with the peer reviewer to discuss an issue that relates to the application of A&A professional standards.
- Your administering entity's disagreement panel – A peer reviewer can request that the administering entity establish a disagreement panel. Requests must be in writing and provide details of the basis for the positions, including any supporting documentation. The request should, at a minimum, contain the following key elements:
  - the issue(s) to be resolved;
  - the basis for the disagreeing party's positions (with reference to applicable professional standards); and
  - a chronology of events with references to supporting documents, including relevant peer review documents.

A panel will be formed of at least three peer review committee members who are independent of the disagreeing parties and not involved in the acceptance of the review. If the disagreement relates to a deficiency or significant deficiency, one of the disagreeing parties can appeal the panel's decision to the Peer Review Board. If the disagreement does not relate to a deficiency or significant deficiency, the decision of the disagreement panel is considered final.

For this scenario, the peer reviewer could:

- Discuss the deferral letter with the technical reviewer to try and gain a better understanding of the reason for the deferral. The peer reviewer may determine that more documentation was just needed in order to show the RAB the need for the MFCs and FFCs.
- Discuss the issue with members of the peer review hotline to discuss her decision to identify the matters and elevate them to findings.
- Call the issue advisory hotline, preferably with a member of the RAB or the technical reviewer, to discuss the authoritative guidance associated with the proposed matters and findings
- Submit a formal request to the administering entity for a formal disagreement panel.

## CASE #12

### System Reviews – Combining Compliance Matters

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

**Estimated Time to Complete: 10 Minutes**

#### **Question 1**

Is it necessary to write a separate Matter for Further Consideration (MFC) for each no answer identified by a review team?

#### **Solution 1**

**No, the definition of a matter is one or more “no” answers on questions on the peer review questionnaires.**

Paragraph .70 a. of PRP Section 1000 states: A peer reviewer notes a matter as a result of his or her evaluation of the design of the reviewed firm’s system of quality control or tests of compliance with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm’s system of quality control. Matters are typically one or more “No” answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm’s system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form.

Paragraph .75 of PRP Section 1000 states, in part: To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm’s system of quality control or the failure of its personnel to comply with the firm’s quality control policies and procedures. The review team should consider the relative importance of the matters to the firm’s system of quality control as a whole, including the nature, systemic causes, pattern, and pervasiveness, to determine the impact to the peer review report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.

#### **Question 2**

Does each nonconforming engagement require a separate MFC?

#### **Solution 2**

**No, a separate MFC does not need to be documented for each nonconforming engagement.**

However, the reviewer will need to make sure all parts of question A on page 4813 of the Summary Review Memorandum are answered for each engagement.

**Interpretation 67-1 of Section 2000 says, in part:** If the reviewer concludes that an engagement is not performed or reported on in conformity with applicable professional



standards in all material respects, the team captain or review captain should promptly inform an appropriate member of the reviewed firm on an MFC form.

### **Question 3**

How should “no” answers be aggregated when documenting them on an MFC?

#### **Solution 3**

**When determining whether to aggregate “no” answers on an MFC or using a separate MFC for a specific “no” answer, the team captain should consider whether the issues identified are related and could be indicative the same systemic cause.**

Most commonly, we see that peer reviewers take a couple of different approaches for aggregating “no” answers.

1. Aggregation by similar “no” answers- we frequently see that “no” answers are aggregated when they are related to the same professional requirement or element of the system of quality control.
2. Aggregation by engagement- if one situation on an engagement resulted in a number of “no” answers, it is common that the review team will aggregate all “no” answers from one engagement into one MFC.

In cases where the situation leading to the noncompliance is similar on more than one engagement, it is acceptable for a firm to combine “no” answers from more than one engagement on the same MFC.

### **Question 4**

What are advantages of combining multiple “no” answers on an MFC?

#### **Solution 4**

**The primary advantage of combining “no” answers on one MFC is that it allows the firm, reviewer and administering entity gain a quicker understanding of the significance and pervasiveness of a matter, which leads to a clearer evaluation of the judgments used in deciding whether to elevate an MFC. Combining multiple “no” answers in a single MFC also saves the firm and team captain time in completing the MFC.**

## CASE #13

### System Reviews – Peer Review Wrap-Up Activities

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

**Estimated Time to Complete:** 15 Minutes

Throughout this case, we will discuss the closing meeting and exit conference in a system review in general terms, including what you do as a team captain in your practice and what factors impact your decisions to do more or less on a given review.

You are just completing fieldwork at the peer review client's office and are planning ahead for the closing meeting and exit conference.

#### **Question 1**

Which meeting should occur first, the closing meeting or the exit conference?

#### **Solution 1**

**The closing meeting should occur first to provide the firm with the preliminary results of the review, in including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued, if determinable at that point.**

In part, paragraph .91 of PRP Section 1000 states: "Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting..."

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point..."

#### **Question 2**

When should each meeting (the closing meeting and the exit conference) be held?

#### **Solution 2**

**The closing meeting should ordinarily be held at least 30 days prior to the firm's due date. The exit conference should ordinarily be held prior to, but no later than, the review due date. In certain circumstances, the closing meeting and exit conference may be combined into one meeting.**

The closing meeting is held first to communicate the preliminary results of the review. The exit conference is held after the firm has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report

date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined.

In part, Interpretation 91-1 of PRP Section 2000 states: "...The closing meeting should ordinarily occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to findings, deficiencies, and significant deficiencies, if applicable..."

In part, paragraph .92 of PRP Section 1000 states: "An exit conference will be held after the firm has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date..."

### **Question 3**

What should be discussed during the closing meeting?

### **Solution 3**

**During the closing meeting, the team captain should 1) provide the firm with the preliminary results of the review, 2) remind the firm of their requirements to respond to the issues identified, and 3) provide any other suggestions or observations for the firm to consider.**

As a reminder, the closing meeting is not the appropriate place or time to surprise the firm with the intention of issuing a pass with deficiency or fail report or to discuss any unresolved accounting and auditing issues.

In part, paragraph .91 of PRP Section 1000 states: "...The team captain should discuss the following during the closing meeting:

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.
- b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations."

In part, Interpretation 91-2 of PRP Section 2000 states: "...Prior to and during the closing meeting, the reviewer should provide the firm with the details supporting why a matter, finding, deficiency or significant deficiency have been identified. However, the

documentation of these items on MFC forms, FFC forms, and in the report may occur after the closing meeting.”

#### **Question 4**

What should be discussed during the exit conference?

#### **Solution 4**

**During the exit conference, the team captain should 1) provide the firm with the final results of the review, 2) alert the firm of potential actions the RAB may take (such as implementation plans and corrective actions), and 3) if applicable, alert the firm to the noncooperation implications of consecutive non-pass report ratings.**

As a reminder, the exit conference is not the appropriate place or time to surprise the firm with the intention of issuing a pass with deficiency or fail report or to discuss any unresolved accounting and auditing issues.

In part, paragraph .92 of PRP Section 1000 states: “...The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm’s responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm’s enrollment in the program.
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).”

## **Attachment: Guidance referenced throughout this case**

Throughout this case, we have discussed the various portions of paragraphs .91–.92 of PRP Section 1000 and Interpretations 91-1 and 91-2, the full paragraphs are provided below for reference.

### **PRP Section 1000**

#### **Communicating Requirements for Closing Meeting and Exit Conference**

.91 Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting. The team captain should ordinarily be physically present at the closing meeting, unless the System Review is performed at a location other than the reviewed firm's office. The closing meeting may also be attended by representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.
- b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

.92 An exit conference will be held after the firm has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the reviewed firm the implications of these steps on the

acceptance and completion of the peer review and the reviewed firm's enrollment in the program.

c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

## **PRP Section 2000**

### **Communication Requirements for Closing Meeting and Exit Conference**

91-1

Question—Paragraphs .91–.92 and .115 of the standards instruct peer reviewers on communicating conclusions at the closing meeting and exit conference. What other guidelines should be followed?

Interpretation—The peer reviewer should consider the need to have the team member(s) participate or be available for consultation (in person or via teleconference) during the closing meeting or exit conference, especially when, in unusual circumstances, the team or review captain does not have the experience to review the industry of an engagement that was reviewed by the team member.

- Furthermore, for System Reviews, the closing meeting and exit conference are not the appropriate place or time to surprise the firm with the intention of issuing a pass with deficiency or fail report or to discuss any unresolved accounting and auditing issues. It is expected that the team captain will have an open means of communication with various levels of personnel leading up to the closing meeting, having at a minimum and as applicable promptly informed them when an engagement is not performed or reported on in conformity with applicable professional standards;
- discussed MFC and FFC forms including the systemic causes and related remedial actions of the firm for any matters, findings, deficiencies, and significant deficiencies in advance; and
- followed up on open questions and issues.

The closing meeting should ordinarily occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to findings, deficiencies, and significant deficiencies, if applicable. The exit conference should be used as a time to communicate the final results of the peer review and should only be conducted after the peer reviewer has assessed the appropriateness of the firm's responses on the MFC forms, FFC forms, and letter of response, if applicable.

91-2

Question—Paragraphs .91 and .115 of the standards states the reviewer should discuss matters, findings, deficiencies and significant deficiencies with the firm at the closing meeting. Does the reviewer need to document these items on MFC Forms, FFC Forms, and in the report, respectively, prior to the closing meeting or can that be performed subsequent to the closing meeting?

Interpretation—Prior to and during the closing meeting, the reviewer should provide the firm with the details supporting why a matter, finding, deficiency or significant deficiency have been identified. However, the documentation of these items on MFC forms, FFC forms, and in the report may occur after the closing meeting. The reviewer should ensure that the forms and deficiency descriptions are provided to the firm with sufficient

time for the firm to document its response and for the reviewer to assess that response prior to the exit conference.