

## 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?

##### **Question 2**

What is a systemic cause and why is it important?

#### **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.

##### **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.

## 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	ET Section and Description
Paragraph	

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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Professional Standard Name	AU-C Section and Description	Paragraph
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	Industry
Audit	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?

##### **Question 2**

How should the team captain identify a systemic cause?

##### **Question 3**

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

#### **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)?

## 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?

##### **Question 2**

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

#### **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.

##### **Question 2**

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

# 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?

##### **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?

##### **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?

#### **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?

## 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:

<b>Industry</b>	<b>Number of Engagements Performed</b>	<b>Year-end</b>	<b>Report Issuance Date</b>
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?

#### **Question 2**

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

**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?

**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?

**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?

## 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?

#### **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?

#### **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?

#### **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?

## 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?

***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?

***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?

## 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?

#### ***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?

#### ***Question 3***

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

#### ***Question 4***

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

#### ***Question 5***

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

## 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.

#### **Question 2**

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

#### **Question 3**

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

#### **Question 4**

Where should the rationale for engagement selection be documented?

## 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.

#### **Question 2**

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

#### **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?

## **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?

#### ***Question 2***

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

#### ***Question 3***

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

## 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?

#### **Question 2**

Does each nonconforming engagement require a separate MFC?

#### **Question 3**

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

#### **Question 4**

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

***Question 2***

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

***Question 3***

What should be discussed during the closing meeting?

***Question 4***

What should be discussed during the exit conference?

## **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.