

**CASE #1****Engagement Reviews – When to Select Preparation Engagements**

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

**Estimated Time to Complete:** 10 Minutes

Review the following guidance from the Peer Review Standards before proceeding to the questions.

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

- a. One engagement should be selected from each of the following areas of service performed by the firm:
  1. Review of historical financial statements (performed under SSARS)
  2. Compilation of historical financial statements, with disclosures (performed under SSARS)
  3. Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
  4. Engagements performed under the SSAEs other than examinations
- b. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item a.

c. Selection of preparation engagements should only be made in the following instances:

1. One preparation engagement with disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item a or when the firm's only engagements with disclosures are preparation engagements.
2. One preparation engagement that omits substantially all disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item a or when the firm's only omit disclosure engagements are preparation engagements.
3. One preparation engagement should be selected if needed to meet the requirement in item d.

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

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

**Interpretation 104-4** adds that:

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

*Interpretation*—

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

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

Example 3. If a sole practitioner only performs compilation engagements that omit substantially all disclosures and preparation engagements with disclosures (and no other engagements under the SSAEs or SSARSs), then one of each type of engagement

should be selected as part of the peer review because a full disclosure engagement should be selected.

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

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

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

**SCENARIO A**

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

The Engagement Summary Form reflects the following information:

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

**Question 1**

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

**Solution 1**

**Yes, in this case a preparation engagement should be selected to meet the requirement in paragraph .104(c)(2) of PRP Section 1000 that states an engagement that omits substantially all disclosures should be selected for review.** As the firm does not perform any other engagements that omit substantially all disclosures, a preparation engagement should be selected to fulfill this requirement.

**Question 2**

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

The corrected Engagement Summary Form reflects the following information:

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

**Solution 2**

**No. A preparation engagement should not be selected.**

An appropriate engagement selection would be

- 1) Review from responsible party 1
- 2) Compilation without disclosures from responsible party 2
- 3) Review from responsible party 3

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

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

**Question 3**

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

**Solution 3**

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

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

**SCENARIO B**

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

**Question 1**

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

**Solution 1**

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

Refer to example 2 from Interpretation 104-4.

**Question 2**

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

**Solution 2**

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

Refer to example 4 from Interpretation 104-4.

**Question 3**

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

**Solution 3**

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

Refer to paragraph .104 of PRP Section 1000.

## CASE #2

### Engagement Reviews – Nonattest Services

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

**Estimated Time to Complete:** 20 Minutes

#### SCENARIO A

A review captain performed the engagement review of A2Z, CPAs (A2Z) for the year ended December 31, 2019. For the selected review engagement, the A2Z completed the nonattest section of the Engagement Questionnaire from Appendix B of PRP Section 6100 as follows:

What types of nonattest services will be performed for this client? (Check all that apply.)

- Activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations [ET sec. 1.295.010.06]
- Bookkeeping, payroll, and other disbursements [ET sec. 1.295.120]
- Tax preparation services [ET sec. 1.295.160]
- Other, which may include advisory services [ET sec. 1.295.105], appraisal, valuation, and actuarial services [ET sec. 1.295.110], benefit plan administration [ET sec. 1.295.115], business risk consulting [ET sec. 1.295.125], corporate finance consulting [ET sec. 1.295.130], executive or employee recruiting [ET sec. 1.295.135], forensic accounting [ET sec. 1.295.140], information systems design, implementation, or integration [ET sec. 1.295.145], internal audit [ET sec. 1.295.150], investment advisory or management [ET sec. 1.295.155]

For each nonattest service type previously identified, identify the following (attach additional sheets, if necessary):

- Specific nonattest service: *Calculated and posted depreciation, adjusted receivables allowance and prepared financials from the adjusted trial balance*
- Individual in your firm responsible: *A&A Manager*
- Name(s) and title of client personnel overseeing this service: *Ralph Beta, accounting analyst*
- Please describe your assessment and factors leading to your satisfaction that the client personnel overseeing the service had sufficient skills, knowledge and experience to do so: *Ralph has performed this work for many years.*

Did any of the nonattest service(s) involve leading and directing the entity, including making significant decisions or assuming management responsibilities? *None.*

Examples of such services include, but are not limited to, the following: (Check all that apply.)

- Accepting responsibility for the preparation and fair presentation of the client's financial statements
- Having check signing authority or power of attorney, whether used or not
- Preparing invoices, receipts, or other documents that evidence the occurrence of a transaction (including data entry)
- Authorizing or executing transactions, or making decisions on behalf of the client
- Supervising, hiring, or terminating client employees
- Serving on the client's board of directors
- Serving as a client's stock transfer or escrow agent, registrar, general counsel, or equivalent
- Accepting responsibility for the management of a client's project
- Performing ongoing evaluations of the client's internal control as part of its monitoring activities
- Other: \_\_\_\_\_

If any of the preceding boxes are checked, please provide a description: *N/A*

**Question 1**

What should A2Z's documentation include regarding nonattest services provided to the client?

**Solution 1**

**A2Z should have established and documented in writing its understanding with the client, including the following in accordance with ET sec. 1.295.040:**

- objectives of the nonattest service engagement,
- nonattest services to be performed,
- client's acceptance of its responsibilities,
- the accountant's responsibilities, and
- any limitations of the nonattest service engagement

**The review captain should ensure that the documentation is specific in describing the nonattest services and addresses the above for each of the nonattest services performed. A general statement that indicates "all nonattest services" is not considered sufficient if it does not identify each of the specific nonattest services. In other words, the nonattest service(s) need to be specifically identified as part of documenting the objectives and other requirements listed above from ET sec. 1.295.040.**

**Question 2**

What is the impact on the peer review if A2Z's understanding with the client is not documented in writing?

**Solution 2**

**Independence is not impaired and the engagement is not automatically deemed nonconforming if the firm established an understanding with the client as required by paragraph .01c of the "General Requirements for Performing Nonattest Services" interpretation (ET sec. 1.295.040), however the engagement would be deemed nonconforming as a violation of the "Compliance With Standards Rule" ET sec. 1.310.001 if the firm failed to meet the documentation requirements as stated in ET sec. 1.295.050.**

According to PRPM Section 3100 Supplemental Guidance under “Implications of Performing Nonattest Services”:

*“....However, if a firm fails to meet the documentation requirements of “Documentation Requirements When Providing Nonattest Services” interpretation (AICPA Professional Standards, ET sec. 1.295.050), under the “Independence Rule” (AICPA, Professional Standards, ET sec. 1.200.001), that alone does not cause an impairment of independence and therefore does not automatically result in the engagement being deemed as not performed or reported on in conformity with applicable professional standards in all material respects, provided the firm did establish the understanding with the attest client called for in paragraph .01c of the “General Requirements for Performing Nonattest Services” interpretation (AICPA, Professional Standards, ET sec. 1.295.040).....”*

### **Question 3**

Based on the information provided on the Engagement Questionnaire, are any of the identified nonattest services specifically prohibited under professional standards?

### **Solution 3**

**The review captain needs to ensure the firm has not assumed management responsibilities as part of their nonattest services, such as authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an attest client or having the authority to do so. The review captain will need more information regarding the journal entries posted for depreciation and receivables, as it is unclear whether the firm assumed management responsibilities that could have impaired its independence. The review captain should also inquire further regarding the depreciation calculations, as this may represent a violation of the “Hosting Services” Interpretation (ET sec. 1.295.143) if A2Z maintains the only depreciation schedule.**

According to ET sec. 1.295.030:

*“.01 If a member were to assume a management responsibility for an attest client, the management participation threat would be so significant that no safeguards could reduce the threat to an acceptable level and independence would be impaired. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.*

*.02 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered management responsibilities and, as such, impair independence if performed for an attest client, include*

- a. Setting policy or strategic direction for the attest client.*
- b. Directing or accepting responsibility for actions of the attest client’s employees except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards.*
- c. Authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an attest client or having the authority to do so.*
- d. Preparing source documents, in electronic or other form, that evidence the occurrence of a transaction.*



- e. *Having custody of an attest client's assets.*
- f. *Deciding which recommendations of the member or other third parties to implement or prioritize.*
- g. *Reporting to those charged with governance on behalf of management.*
- h. *Serving as an attest client's stock transfer or escrow agent, registrar, general counsel or equivalent.*
- i. *Accepting responsibility for the management of an attest client's project.*
- j. *Accepting responsibility for the preparation and fair presentation of the attest client's financial statements in accordance with the applicable financial reporting framework.*
- k. *Accepting responsibility for designing, implementing, or maintaining internal control.*
- l. *Performing ongoing evaluations of the attest client's internal control as part of its monitoring activities."*

#### **Question 4**

Does Ralph have sufficient skills, knowledge and experience (SKE) to oversee the nonattest services?

#### **Solution 4**

**The firm's assessment of skills, knowledge, and experience (SKE) should include more than just identifying the individual's name and title or certification. Based on the information provided by the firm, it is unclear whether Ralph has suitable and adequate SKE. The review captain should inquire of the firm regarding Ralph's SKE and the firm's assessment and reasoning that his SKE is suitable and adequate.**

According to Ethics 1.295.040.01:

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

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

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

**Question 5**

What is the effect on the engagement if A2Z is unable to provide evidence (in the workpapers or verbally) that Ralph possessed suitable and adequate SKE and no other individual was suitable to oversee the nonattest services?

**Solution 5**

**Threats would not be at an acceptable level if Ralph does not possess adequate SKE, the firm would not be independent, and the engagement would be deemed nonconforming. In this situation, an MFC form should be prepared and elevated to the peer review report as a deficiency or significant deficiency.**

According to PRPM Section 3100 Supplemental Guidance, "Implications of Performing Nonattest Services":

"The AICPA Peer Review Board (board) has determined that when a firm performs an engagement when it lacks independence, the engagement would be deemed as not being performed or reported on in conformity with applicable professional standards in all material respects (except on compilation engagements where the accountant's report has appropriately noted the lack of independence)....."

**Question 6**

What should the review captain expect to see in A2Z's documentation if they have in fact performed multiple nonattest services for this client that pose a significant threat to the firm's independence?

**Solution 6**

**The review captain should expect to see A2Z's documentation of its evaluation when the performance of multiple nonattest services in the aggregate creates a significant threat to the firm's independence that cannot be reduced to an acceptable level by applying the safeguards noted in the "General Requirements for Performing Nonattest Services" interpretation (AICPA, Professional Standards, ET sec. 1.295.040).**

If the reviewed firm determines that threats are not at an acceptable level, safeguards in addition to the "General Requirements" should be applied to eliminate the threats or reduce them to an acceptable level. If no safeguards are available to eliminate or reduce the threats to an acceptable level, A2Z's independence is impaired and the engagement would be deemed nonconforming.

According to the "Cumulative Effect on Independence When Providing Multiple Nonattest Services interpretation (AICPA Professional Standards, ET sec. 1.295.020), under the "Independence Rule" (AICPA, Professional Standards, ET sec. 1.200.001):

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

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

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

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

### CASE #3

#### Engagement Reviews – Nonconforming Engagements

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

**Estimated Time to Complete:** 15 Minutes

#### **SCENARIO A**

Chuck Countula is the review captain for the review of Froodie, Peebles, and Oates LLP (FPO). Consider the engagements and resulting issues noted below as selected by Mr. Countula during his review.

<b>Engagement Type</b>	<b>Partner</b>	<b>Issues Identified</b>
Review (SSARS)	Froodie	Failure to include all relevant disclosures for related party transactions.
Compilation with disclosures	Peebles	Omission of the phrase <i>“We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA.”</i>
Compilation omit disclosures	Peebles	For financial statements prepared on a tax basis, the accountant’s report stated the financial statements were prepared in accordance with GAAP.
Preparation with disclosures*	Oates	Engagement letter was signed by the client but not by the firm.

*\*Preparation engagement was selected as it was the only engagement performed by Mr. Oates.*

#### **Question 1**

Which of the engagements reviewed should be identified as nonconforming?

#### **Solution 1**

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

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

- For engagements performed in accordance with SSARS No. 21, failure to obtain all required signatures on the engagement letter (or other suitable written agreement).
- Inappropriate references to GAAP in the accountant’s report when the financial statements were prepared using a special purpose framework.

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

According to Standards paragraph .110(c), a deficiency is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. Therefore, when a review captain determines an engagement does not conform to relevant professional standards in all material respects (in other words, is nonconforming), at a minimum, a deficiency is present. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.

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

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

- omission of phrases or use of phrases in the accountant's report that are not in conformity with the appropriate standards for the report issued
- omitted or inadequate disclosures related to account balances or transactions (for example, disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long term debt, related party transactions, concentrations of credit risk, and so on).

### **Question 2**

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

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

### **Solution 2**

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

Answer a) is true as a requirement of Standards paragraph .115, the review captain should discuss preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies during the closing meeting.

Answer b) is true as a requirement of Paragraph .126 of the Standards, the review captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the firm's response should be discussed during the exit conference. The firm's letter of response should be finalized and dated as of the exit

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

Answer c) is false according to Standards paragraph .124, "The firm should respond to all matters communicated on an MFC form, findings communicated on an FFC form, and deficiencies or significant deficiencies communicated in the peer review report." The nature and extent of the firm's response may take into account that the matters are also included in the report as deficiencies.

Answer d) is true as a requirement in Paragraph .115 of the Standards, which states the review captain should discuss during the exit conference, final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFCs, FFCs, and deficiencies and significant deficiencies in the report.

### **SCENARIO B**

Chuck Countula is also serving as the review captain for the engagement review of Colomb & Honee (CH). Mr. Countula selected the following engagements for his review.

- A review engagement performed by Colomb
- A review engagement performed by Honee

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

- Several omitted or inadequate disclosures related to:
- Significant accounting policies
- Inventory
- Long term debt
- Related party transactions
- Method of income recognition
- Several items on the statement of cash flows were misclassified
- The firm failed to explain the degree of responsibility the accountant is taking with respect to supplementary information.
- The supplementary information was not clearly segregated or marked as supplementary

### **Question 1**

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

#### **Solution 1**

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

For every engagement reviewed, the reviewer should aggregate the matters identified and evaluate whether a finding or deficiency exists. There may be instances where, individually, a matter on an engagement might result only in a finding, but in aggregate with other matters in the engagement, would result in at least a deficiency. If the

reviewer does conclude that a collection of findings meets the definition of a deficiency, the review captain should identify the engagement as nonconforming.

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

**Note for Discussion Leaders:**

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

## CASE #4

### Engagement Reviews – Documenting Conclusions Reached

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

**Estimated Time to Complete:** 15 Minutes

#### **SCENARIO A**

The review captain of Firm B performed the peer review of Firm A and recommended a *pass* report rating with two MFCs. Engagements selected included one review and one compilation with disclosures performed under SSARS. The review captain submitted the peer review working papers to the administering entity, which included all required documents and a summary of exit conference discussion items. The MFC descriptions and other exit conference items are noted below.

*MFC-1:* The current portion of long-term debt was not disclosed or presented as a current liability for the review engagement.

*MFC-2:* The accounting policy related to advertising costs was not included in the notes to the financial statements for the compilation engagement.

*Other exit conference agenda items:*

- A Statement of Cash Flows was not properly presented for each period on the review engagement.
- Minor formatting issues on both engagements may be avoided by using standardized financial statement templates.
- Documentation has room for improvement on both engagements.

#### **Question 1**

What is the purpose of the review captain's documentation of the disposition of MFCs, and what should be included?

#### **Solution 1**

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

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

Per PRP Section 1000, Paragraph .74:



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

## **Question 2**

Do you agree with the disposition of the MFCs and exit conference items in Scenario A? Discuss any judgments used to reach your conclusion.

### **Solution 2**

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

**As noted in Question 1, review captains should consult Appendix E of PRP Section 6200 and include supporting documentation to explain where professional judgment has been applied when reaching a conclusion.** When descriptions of matters or exit conference items are vague or provide limited information, it may be difficult to determine whether the review captain reached an appropriate conclusion. Due to the limited information provided in each of the MFC descriptions and exit conference agenda items, further clarification is necessary to evaluate the review captain’s conclusions.

The severity and relative importance of the issues identified should be described so that a technical reviewer or RAB member can understand how a review captain reached their conclusion regarding disposition. Participants will likely question the relative importance of the issues noted on the MFCs and those discussed on the exit conference agenda:

- For both MFCs, the review captain did not indicate whether the issues were significant or material to the financial statements, regarding the misclassification of a current liability as long-term debt and the missing disclosure of the accounting policy for advertising costs.
- Additionally, it is difficult to determine the relative importance of the exit conference agenda items, such as the basis for determining the documentation shortfalls did not need to be further elevated, and whether the statement of cash flows was properly reported.
- The minor formatting issues noted are most likely appropriate as an exit conference item, however the reviewer could have provided additional explanation to indicate that the formatting issues did not cause the financial statements to be misleading.

Per PRP Section 1000, Paragraph .110:

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

- a. *A matter is noted as a result of evaluating whether an engagement submitted for review was per-formed or reported on in conformity with applicable professional*

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

### **Question 3**

While discussing the MFCs and exit conference agenda items with Firm A, it became apparent the firm was unaware of the departures from GAAP even though the departures were immaterial. What should the review captain consider when there are multiple immaterial departures from GAAP?

### **Solution 3**

**The review captain needs to use professional judgment in determining whether collectively the "in all material respects" threshold has not been met. A finding should be issued in connection with an Engagement Review when the review captain concludes that financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, were not performed or reported on in conformity with the requirements of applicable professional standards.**

Per Supplemental Guidance in PRP Section 3100 – Engagement Reviews- Considerations When There Are Several Departures from GAAP That are Immaterial:  
*"In reviewing generally accepted accounting principles (GAAP) basis financials with no report modification, a reviewer performing an engagement review may find several*

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

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

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

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

## CASE #5

### Engagement Reviews – Aggregating Matters for Further Consideration (MFCs)

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

**Estimated Time to Complete:** 10 Minutes

#### SCENARIO A

Laud, CPA and Associates was engaged to perform an engagement review for Johnson and Kylie, LLP, for the peer review year-ended 12/31/2019. Laud obtained an engagement listing from Johnson and selected the following engagements subject to Statements on Standards for Accounting and Review Services (SSARS) for review:

Selected	Level of Service	Responsible Party
1	Review of financial statements	Kylie
1	Compilation of financial statements, omitting substantially all disclosures	Johnson

After reviewing the engagements selected, Laud drafted MFC forms for the following matters:

- On the compilation engagement, the report failed to explain the degree of responsibility Johnson and Kylie assumed with respect to supplementary information.
- Also on the compilation engagement, the report failed to disclose the omission of substantially all disclosures and the statement of cash flows required by Generally Accepted Accounting Principles (GAAP).
- On both the Review and Compilation engagements, the engagement letter was signed by the clients and included in the engagement files but failed to address all requirements of SSARS No. 24.

#### QUESTION 1

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

#### SOLUTION 1

**Yes. Matters may be aggregated to a single finding if the issues identified are substantially the same.** In this scenario, both the Review and Compilation engagements included a signed engagement letter that did not fully comply with the requirements of SSARS No. 24.

#### **Per PRP Section 1000, Paragraph .110**

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

- a. A matter is noted as a result of evaluating whether an engagement submitted for review was performed or reported on in conformity with applicable*

*professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports, and the adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A matter is documented on a Matter for Further Consideration (MFC) form.*

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

## **SCENARIO B**

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

- Short and long-term debt were misclassified on the balance sheet of the review engagement performed by Kylie.
- Insufficient disclosure related to long-term debt was included in the financial statements of the review engagement performed by Kylie.
- Financial statement titles were inconsistent with the accountant's report of the compilation engagement.

## **QUESTION 1**

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

## **SOLUTION 1**

**No. Some opinions from participants may differ here, but none of the matters identified in scenario B are substantially the same, and therefore should not be aggregated into a single FFC form (i.e. – the first item is a presentation issue, the second item is a disclosure issue, and the third item is a report issue).** While there are similar issues on both engagements reviewed, they are not substantially the same.

### **Per PRP Section 1000, Paragraph .110**

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

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

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

## CASE #6

### Engagement Reviews – Appropriateness of Firm Responses

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

**Estimated Time to Complete:** 15 Minutes

#### **SCENARIO A**

Coby Meredith, the review captain, is performing the peer review of Little & White, LLP (the firm). Mr. Meredith noted on the review engagement selected, the firm failed to document the results of its analytical procedures. As such, Mr. Meredith concluded this engagement was nonconforming and included this as a deficiency in the peer review report. The other engagement reviewed had no issues (not considered nonconforming).

#### **Question 1**

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

#### **Solution 1**

**According to Standards paragraph .125, it is the firm's responsibility to identify the appropriate remediation of deficiencies and to appropriately respond. In its letter of response, the firm should address the firm's actions taken or planned to remediate deficiencies including timing of the remediation and additional procedures to ensure the deficiency is not repeated in the future.** The action(s) should be feasible, genuine, and comprehensive addressing each of the requirements outlined in paragraph .125.

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

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

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

#### **Question 2**

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



### ***Solution 2***

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

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

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

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

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

### ***SCENARIO B***

Assume the firm's letter of response (LOR) broadly states: "We will document the results of analytical procedures on future review engagements" without further explanation in the LOR.

#### ***Question 1***

Is this response appropriate?

#### ***Solution 1***

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

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

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

Should the review captain instruct the reviewed firm to document the results of its analytical procedures in the selected review engagement?

***Solution 2***

**No. While review captains should request a revised response if the firm's response is not deemed to be comprehensive, genuine and feasible (as the technical reviewer or RAB will ultimately request a revised response in these situations), reviewers should not instruct firms to perform omitted procedures, reissue accounting reports or have previously issued financial statements revised and reissued (as these are decisions for the firm and its client to make).** That said, administering entities can require the firms to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review.

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

## CASE #7

### Engagement Reviews – Report Ratings

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

**Estimated Time to Complete:** 10 Minutes

#### **SCENARIO A**

XYZ Accounting Firm is undergoing an Engagement Review for the peer review year-ended December 31, 2019. Out of four engagements reviewed, the review captain deemed one engagement as nonconforming.

#### **Question 1**

What impact does the nonconforming engagement have on the peer review report?

#### **Solution 1**

**If one of four selected engagements was deemed nonconforming, XYZ Accounting Firm would receive a report with a peer review rating of *pass with deficiencies*.**

According to PRP Section 1000, Paragraph .110:

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

#### **Question 2**

Assume the review captain reviewed 4 engagements and all were deemed nonconforming. What should the report rating be based on the results of the engagements reviewed?

#### **Solution 2**

**If all engagements selected for review were deemed nonconforming, the XYZ Accounting Firm would receive a report with a peer review rating of *fail*.**

According to PRP Section 1000, Paragraph .110:

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

### **Question 3**

How and when should XYZ Accounting Firm respond to deficiencies or significant deficiencies noted in the peer review report?

#### **Solution 3**

**The firm should draft a letter of response for any deficiencies or significant deficiencies noted in the peer review report, outlining the actions taken or planned to remediate nonconforming engagements and should be genuine comprehensive and feasible. The firm's draft response should be provided to the review captain as soon as practicable to allow the review captain sufficient time to assess the firm's response prior to the exit conference.**

According to PRP Section 1000, Paragraph .124-.125:

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

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

### **Question 4**

What are the review captain's responsibilities regarding the firm's letter of response?

#### **Solution 4**

**The Review Captain should review and evaluate the reviewed firm's draft letter of response prior to the exit conference. The appropriateness of the firm's response should be discussed during the exit conference, and the letter of response should be finalized as of the exit conference date and submitted to the administering entity with the peer review report and related working papers.**

According to PRP Section 1000, Paragraph .126:

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

### **Question 5**

Can a review captain and/or RAB request the firm to correct and/or reissue the financial statements associated with the identified non-conforming engagements?

### **Solution 5**

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

However, the RAB may require follow up action to evaluate the firm's follow through on the intended or alternative steps taken. Review captains are encouraged to reference Exhibit 5-2 of the RAB Handbook for possible remedial corrective actions that may be recommended to the RAB for consideration as part of its acceptance decision.

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

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

According to Chapter 5, Section VI. of PRP Section 3300—Guidance for Determining When and What Type of Corrective Action(s) or Implementation Plans to Require on Engagement Reviews:

*“If the firm determines that omitted procedures will be performed, that notifications will be made to those relying on the reports, or that financial statements will be revised or reissued prior to the peer reviewer’s conclusion on the engagement or conclusion on the peer review, it is not expected that these actions will be completed before the peer review concludes. However, the firm’s response should include its intention to perform these steps, if known. The RAB may require follow up action to evaluate the firm’s follow through on the intended or alternative steps taken.*

*When the reviewer identifies an engagement not performed or reported on in conformity with applicable professional standards in all material respects, the review captain should thoroughly evaluate the firm’s considerations and decision with due consideration of applicable professional standards to determine whether a corrective action to follow up on the engagement should be suggested. The firm should include the summary of its considerations and conclusions in its response, generally documented on a MFC form.*

*If the review captain agrees with the reviewed firm’s response and appropriately documented considerations related to such an engagement and the firm states in its response that it intends to complete omitted procedures, to reissue the accountant’s report, or to have revisions made to previously issued financial statements, the RAB should consider whether the firm’s response is genuine, comprehensive, and feasible. The RAB also should ordinarily consider accepting the peer review provided that the reviewed firm agrees to submit evidence to a party acceptable to the RAB of performing and documenting the omitted procedures or of reissuing the report, if appropriate. Identification of an engagement not performed or reported on in conformity with professional*

*standards in all material respects results in a deficiency in the Engagement Review report for which the RAB should ordinarily require some type of remedial or corrective action as a condition of acceptance.*

*When the RAB deems that the reviewed firm's response is not sufficient (not genuine, comprehensive, and feasible) or has substantial reason to challenge the firm's documented considerations and the re-viewer's assessment of the firm's response to address an engagement not performed or reported on in conformity with professional standards in all material respects, the RAB should defer acceptance of the review pending revisions or additional information to resolve the matter. If the RAB determines that the firm has not properly considered applicable professional standards to address such an engagement, the firm's actions may affect other corrective actions or implementation plans that the committee may impose, or they may cause the RAB to not accept the peer review report and consider that the firm is not cooperating with the peer review program."*