

**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?

**Question 2**

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

The corrected Engagement Summary Form reflects the following information:

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

**Question 3**

Using the 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?

**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?

**Question 2**

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

**Question 3**

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

## 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?

**Question 2**

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

**Question 3**

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

**Question 4**

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

**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?

**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?

### 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?

#### **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)?

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

#### **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?



## 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?

#### **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.

#### **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?

## 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:

<b>Selected</b>	<b>Level of Service</b>	<b>Responsible Party</b>
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.

#### **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.

## 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?

##### **Question 2**

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

#### **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?

##### **Question 2**

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

## 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?

##### **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?

##### **Question 3**

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

##### **Question 4**

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

##### **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?