

CASE #1**System Reviews – Peer Review Planning Activities**

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

Estimated Time to Complete: 20 Minutes

SCENARIO A

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

You have just accepted a new peer review client. You have arranged with the firm to be on-site for the review in approximately one month. In anticipation of the review you have begun your planning procedures.

Question 1

What are the procedures you perform during your initial planning and what types of information do you request from the reviewed firm?

Question 2

How do your planning procedures differ when you are preparing for a new peer review client versus a reoccurring one? Why?

Question 3

From a practical standpoint, at what point in the peer review do you discuss the representation letter with the reviewed firm and what do you try to ascertain from this discussion?

Question 4

The Peer Review standards require the team captain to obtain an understanding of the 1) nature and extent of the firm's accounting and auditing practice, 2) design of the firm's system of quality control, and 3) monitoring procedures performed since the prior review. What procedures do you perform to obtain these understandings?

CASE #2

System Reviews – Remediation of Nonconforming Engagements

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

Estimated Time to Complete: 20 Minutes

SCENARIO A

During the peer review for Bonnie & Clyde (B&C) covering the year-ended December 31, 2019, the team captain selected three of the firm's 25 limited scope defined contribution employee benefit plan audit engagements; no other audit or accounting services were performed during the period under review.

On one of the engagements selected, the firm placed reliance on a type 2 SOC1 report to reduce its sample size for substantive testing, however the workpapers did not include any support for testing the operating effectiveness of complementary user entity controls at the plan sponsor. The team captain answered "No" to question A130 (a bolded question) of the EBP checklist, communicated the issue to the firm on MFC1, and deemed the engagement as nonconforming.

Question 1

Is it reasonable for the team captain to deem the engagement nonconforming?

Question 2

Is it appropriate for the team captain to instruct B&C to perform the omitted control testing procedures or to recall and reissue the report?

Question 3

What are the firm's responsibilities regarding the nonconforming engagement?

Question 4

What are the team captain's responsibilities regarding the nonconforming engagement identified in B&C's peer review?

Question 5

The firm responded to the MFC as noted below. Is this a sufficient response, or should the team captain request a revised response before submitting the workpapers to the administering entity?

"We agree with the matter identified by the reviewer; this was isolated to this engagement, as appropriate procedures were performed on other engagements where reliance was placed on a SOC 1 report to reduce substantive testing."

CASE #3

System Reviews – MFCs and FFCs

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

Estimated Time to Complete: 10 Minutes

SCENARIO A

Luther Dickenson, CPA of the firm NMA, LLC performed a system review. The team captain reviewed a general audit, an audit performed in accordance with *Government Auditing Standards*, an employee benefit plan audit, a review engagement, and two non-disclosure compilation engagements.

There were several “no” answers on each of the engagement checklists but, with the exception of those pertaining to management representation letters, Mr. Dickenson determined they were isolated to the engagements that were reviewed. None of the “no” answers would have caused the engagements to be nonconforming. Because Mr. Dickenson found issues pertaining to management representation letters on several engagements, he wrote an MFC (MFC 1).

NOTE: Given the scenario’s description, it is likely that the reviewer raised this MFC to an FFC. However, this scenario only addresses the reviewer’s MFC.

MFC 1

Reviewer’s Description of the Matter (include systemic cause, when possible)

There were several errors on the management representation letters for three audit engagements supervised by partner John Kimbrough. The errors included: letter was not properly dated; letter did not refer to the comparative year; letter failed to include a representation about estimates.

Firm Response

Mr. Dickenson advised us that the systemic cause of these errors was probably related to not updating or tailoring letter templates and not properly using our other practice aids. We agree with this systemic cause.

Captain Comments

None

Question 1

Does the reviewer’s description of the matter comply with Peer Review Standards?

Scenario B

Luther Dickenson, CPA of the firm NMA, LLC performed a system review. The team captain reviewed a general audit, two audits performed in accordance with *Government Auditing Standards (GAS)*, an employee benefit plan audit, a review engagement, and two non-disclosure compilation engagements.

While completing PRP 4600 (Guidelines for Review of Quality Control Policies and Procedures), Mr. Dickenson noted the reviewed firm's quality control policies and procedures require individuals in the firm who work on specialized industries (such as those performed in accordance with GAS) to obtain CPE in those industries. The firm's QCPP also requires individuals who work on engagements performed in accordance with *Government Auditing Standards* to meet the Yellow Book continuing professional education requirements.

On one of the GAS audits, when answering question GA118 in PRP 22,110 (Supplement Checklist for Review of Audit Engagements Performed in Accordance with Government Auditing Standards (Yellow Book) December 2011 Revision) about whether the engagement team members met the Yellow Book continuing professional education requirements, Mr. Dickenson examined the firm's CPE records. He noted two of the team members did not meet the Yellow Book CPE requirements at the time of the engagement. Mr. Dickenson concluded that the engagement was nonconforming for this reason. A similar problem was not found on the other GAS audit that was reviewed.

While reviewing the employee benefit plan audit, Mr. Dickenson examined the CPE records of the engagement team and noted the partner and manager had taken appropriate industry CPE in the 12 months prior to the audit but the senior accountant, while experienced in auditing employee benefit plans, had not. Neither of the engagement team's two staff accountants had taken relevant CPE. The engagement was conforming. Mr. Dickenson examined the continuing professional education records of other professionals who participated in audits of employee benefits plans and found other instances where industry-specific CPE had not been taken.

MFC 1

Reviewer's Description of the Matter (include systemic cause, when possible)

Two members of an engagement team that performed an audit in accordance with *Government Auditing Standards* did not meet the Yellow Book continuing professional education requirements at the time of the engagement. Three members of an engagement team that performed an audit of an employee benefit plan had not taken industry-specific continuing professional education during the 12-month period before the audit commenced.

The firm's QCPP require that professionals who work in specialized industries obtain industry-specific continuing professional education. The firm's QCPP also require individuals who work on engagements performed in accordance with *Government Auditing Standards* to meet the Yellow Book continuing professional education requirements.

Firm's Response

The firm agrees with the comments and will ensure that when audits in specialized industries are scheduled that team members have complied with regulatory requirements and with the requirements of our QCPP.

FFC 1

Reviewer's Description of the Finding

Two members of an engagement team that performed an audit in accordance with *Government Auditing Standards* did not meet the Yellow Book continuing professional education requirements at the time of the engagement. This engagement was nonconforming for this reason.

Three members of an engagement team that performed an audit of an employee benefit plan had not taken industry-specific continuing professional education during the 12-month period before the audit commenced.

Systemic Cause of the Finding

The firm failed to comply with its quality control policies and procedures.

Were similar findings noted in the prior review? No

Are there any non-conforming engagements in this FFC? Yes

Reviewed Firm's Response to the Reviewer's Findings:

The firm's QCPP require engagement team members on specialized-industry audits have had relevant CPE during the 12-month period prior to the commencement of the engagement. Where necessary, engagement team members are also required to meet regulatory requirements related to continuing professional education.

For non-conforming engagements, the response should also describe the following: The firm's actions taken or planned to remediate the engagements identified on the FFC as non-conforming and the timing of these actions:

The firm plans to modify its internally developed engagement scheduling form so it includes a section verifying that QCPP for continuing professional education has been complied with.

Question 1

Does MFC 1 comply with Peer Review Standards? If not, what are the errors?

Question 2

Does FFC 1 comply with Peer Review Standards? If not, what are the errors?

CASE #4

System Reviews – Nature and Elevation of Matters

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

Estimated Time to Complete: 15 Minutes

SCENARIO A

Recall that the relative importance of issues identified during a peer review requires application of professional judgement, and significance determines how a particular issue is communicated to a reviewed firm. Such issues may be communicated on a Matter for Further Consideration (MFC) form, a Finding for further consideration (FFC) form, or included in the peer review report for those reaching the level of a deficiency or significant deficiency.

Question 1

What is the basis for communicating an issue to a reviewed firm on an MFC form?

Question 2

What should a reviewer consider when determining if a matter(s) is elevated to an FFC form?

Question 3

What should a team captain consider before elevating a matter(s) or finding(s) to the peer review report? What is the distinction between a deficiency and a significant deficiency?

CASE #5

System Reviews – Nonconforming Engagements

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

Estimated Time to Complete: 20 Minutes

SCENARIO A

Peer review guidance provides some “bright lines” when determining if an engagement is nonconforming, however it also allows reviewers to exercise professional judgment when making those determinations. Throughout this case we will be discussing situations where a team captain has to make a determination about whether an engagement conforms with professional standards in all material respects. The following excerpts from guidance are provided to assist in this discussion.

Paragraph .66 of PRP Section 1000 states:

“For each engagement reviewed, the review team should conclude on its review by documenting whether anything came to its attention that caused it to believe that the engagement was not performed or reported on in conformity with applicable professional standards in all material respects (see interpretations).”

Interpretation 66-1 of PRP Section 2000 states:

Question—Paragraphs .66–.67 and .109 of the standards requires the review team to conclude on the review of an engagement by determining whether the engagement was performed or reported on in conformity with applicable professional standards in all material respects. How should this conclusion be made?

Interpretation—The review team should use practice aids that document, for each engagement reviewed, whether anything came to the review team’s attention that caused it to believe the following, as applicable:

- a. The financial statements were not in conformity with GAAP in all material respects or, if applicable, with a special purpose framework and the auditor or accountant’s report was not appropriately modified.
- b. The firm did not perform or report on the engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards; for example, Government Auditing Standards.
- c. The firm did not perform or report on the engagement in all material respects in accordance with SSARS.
- d. The firm did not perform or report on the engagement in all material respects in accordance with SSAEs or any other applicable standards not encompassed in the preceding.

In Engagement Reviews, these results should be considered by the review captain in determining the type of report to issue.

Question 1

In addition to the guidance provided earlier in this case, what are other resources or tools that you use when assessing nonconformity?

SCENARIO B

Question 1

While reviewing a defined benefit plan, you noticed that the auditor did not select an adequate sample of participants to test the census data. They tested eligibility and agreed participant data to the personnel files for their selected sample, but the sample size appeared inadequate and they failed to perform any procedures to test completeness of the census data. Question A225 from the Employee Benefit Plan Checklist is provided below for reference. Would you mark the question “no”; why or why not? Would you consider the engagement nonconforming; why or why not?

Question A225

For defined benefit and health and welfare plans, did the auditor perform and document adequate substantive audit procedures to test the following assertion relevant to participant census data used by the actuary to compute accumulated plan benefits and other material benefit obligations (including postretirement obligations)? [AAG-EBP 6.186e and 7.229e]

- **Participant census data is complete and accurate [AAG-EBP 6.188a and 7.227a]**
 - Consider documentation of the following example audit procedures example procedures: [AAG-EBP 6.190e and 7.229e] (refer to AAGEBP for a complete list of examples, as this list is not all-inclusive)
 - Selecting a sample of participants from census data to determine that participants are eligible based upon provisions in the plan document and agreeing significant participant information with personnel files, and payroll information (if valuation inputs include compensation)
 - Obtaining and reviewing reconciliation of aggregate census data.
 - Verifying proper inclusion of all eligible participants by agreeing totals to plan sponsor’s personnel and payroll records, or testing a sample of all potential participants for proper inclusion/exclusion
 - Obtaining and reviewing rollforward of census data from one year to the next and determine whether changes are reasonable and consistent with other audit evidence
 - Directly confirming aggregate participant data used in the actuarial valuation with the plan’s actuary

SCENARIO C

Throughout this scenario, you are reviewing an audit and you noticed that the period covered was within the implementation period for FASB ASC 606, *Revenue from Contracts with Customers* (ASC 606).

Each of the subsequent questions will be based off of this audit but will have a slightly different fact pattern. Discuss how these factors impact your determination about whether the engagement would be considered nonconforming.

Question 1

As you are reviewing the workpapers and financial statements, you see no indication the audit client or auditor considered ASC 606. Based on this factor alone, would you consider the engagement nonconforming; why or why not?

Question 2

Building on question 1, you asked the auditor for clarification regarding the implementation of ASC 606, or lack thereof, and the auditor said the client indicated there would be no material impacts and therefore there was nothing to disclose. Would you consider the engagement nonconforming; why or why not?

Question 3

For this question, do not consider the facts discussed in questions 1 and 2.

As you are reviewing the workpapers and financial statements, you see the auditor documented their consideration of the client's implementation of ASC 606 and agree there would be an immaterial impact associated with the implementation. You also see some of the disclosures are in accordance with ASC 606, but not all of the elements are present. You do not believe the items that are missing would be misleading to the users of the financial statements. Would you consider the engagement nonconforming; why or why not?

Question 4

For this question, do not consider the facts discussed in questions 1, 2, or 3.

As you are reviewing the workpapers and financial statements, you see the auditor documented their consideration of the client's implementation of ASC 606 and they properly included the related disclosures in the financial statements. However, you believe the guidance was misapplied, resulting in material issues in the financial statements. After consulting with the auditor, they agree with your assessment. Would you consider the engagement nonconforming; why or why not?

SCENARIO D

Throughout this scenario, you are reviewing engagements performed under SSARS. Discuss each situation and determine whether the engagement would be considered nonconforming.

Question 1

You are reviewing the workpapers and financial statements for a review engagement. The firm had inadequate documentation related to their analytical procedures and inquiries of management. Would you consider the engagement nonconforming, why or why not?

Question 2

You are reviewing a compilation engagement. As you are reviewing the report, you noticed the firm did not include a paragraph regarding the omission of supplemental information. Would you consider the engagement nonconforming, why or why not?

CASE #6

System Reviews – Common Requests for Revisions from Technical Reviewers

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

Estimated Time to Complete: 15 Minutes

SCENARIO A

Once submitted to the Administering Entity (AE), all peer reviews undergo a technical review before being presented to a report acceptance body (RAB). A primary purpose for performing technical reviews is to anticipate the questions that the RAB might have, this includes ensuring that the peer review documentation (SRM, MFCs, FFC, Report, etc.) is comprehensive, complete, and prepared in accordance with standards. As a result of the technical review, the technical reviewer may have questions for the team captain.

Throughout this conference case, we are going to discuss the most common revisions requested by technical reviewers and how to prepare your peer review documentation in a way that helps reduce the number of questions you receive during the technical review process.

Question 1

What are the most common revision requests you receive from technical reviewers? As a group, discuss ways to enhance your peer review documentation to reduce the number of times you receive these requests.