

## CASE # 1

### Engagement Reviews – Findings, Deficiencies and Significant Deficiencies

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*

Review the following excerpt of an FFC:

REVIEWER'S DESCRIPTION OF THE FINDING
The firm's report was not in conformity with professional standards.
REVIEWED FIRM'S RESPONSE (The response should describe the firm's actions taken or planned to remediate the findings, including the timing of the remediation, the person(s) responsible for the implementation, and additional procedures to ensure the finding is not repeated in the future.)
We will update the report going forward.

#### *QUESTION 1*

Describe how the reviewer's description of the finding could be improved?

#### *SOLUTION 1*

The description should be more detailed to assist the firm in their response. In this case, the description should include the exact reason why the report did not conform to the professional standards. As currently written it is uncertain as to whether an FFC form is appropriate. Given the materiality of the nonconformity, it is entirely possible that the matter identified should be a deficiency or significant deficiency. Finally, a thorough description will enable the firm to provide a more meaningful response.

#### *QUESTION 2*

Does the firm's response from the preceding example FFC meet peer review requirements?

#### *SOLUTION 2*

No, because the response does not detail the timing, person(s) responsible, nor additional procedures to ensure the finding is not repeated in the future.

PRP Section 6600 paragraph .01f states each FFC form:

Includes the reviewed firm's response. The reviewed firm should indicate whether it agrees with the finding. It is the firm's responsibility to identify the appropriate remediation. **The reviewed firm should address the firm's**

**actions taken or planned to remediate the findings, including the timing of the remediation, the person(s) responsible for the implementation, and additional procedures to ensure the finding is not repeated in the future.**

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 a component of an appropriate response but firms should be able to articulate why it isn’t being corrected now. The firm in this instance has not articulated why its response is appropriate.

### ***QUESTION 3***

How could the example FFC in Scenario A be rewritten to comply with peer review requirements?

### ***SOLUTION 3***

This question is designed to generate discussion among each group and as such, there is no singular correct answer. Below is Staff’s suggested response.

REVIEWER’S DESCRIPTION OF THE FINDING
The firm did not update a review report to conform to each requirement of SSARS No. 21. Specifically, they included some, but not all of the required headings in the accountant’s review report
REVIEWED FIRM’S RESPONSE (The response should describe the firm’s actions taken or planned to remediate the findings, including the timing of the remediation, the person(s) responsible for the implementation, and additional procedures to ensure the finding is not repeated in the future.)
One of our tax partners completed the review without complete knowledge of the requirements of SSARS No. 21. Since the report is not considered misleading, we will correct the report on the subsequent year’s review. Our QC Partner will review all report templates for conformity with current professional standards. Additionally, the QC Partner will review all reports signed by our tax partners prior to their issuance. This procedure should ensure the finding is not repeated.

### ***SCENARIO B***

The peer review report for an engagement review included the following deficiency;

1. During our review we noted the firm failed to obtain engagement letters for compilation and preparation engagements.

The firm’s Letter of Response noted that going forward, the firm will obtain engagement letters for all engagements.

### ***QUESTION 1***

How could the firm response be changed to comply with peer review standards?

### ***SOLUTION 1***

**The firm should be more specific in terms of how the plan to remediate the deficiency and include timing of the remediation and additional procedures to ensure the deficiency, or significant deficiency is not repeated in the future.**

The response could be rewritten to say;

1. We will obtain engagement letters for all services provided to clients. All accounting professionals in our firm will take an annual accounting update course in May of each year to be current in applicable professional standards. Additionally, a manager on each engagement team will review all the engagement files to be sure they contain an engagement letter that meets the requirements of the applicable professional standards.

PRP section 1000 paragraph .125 states:

.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.**

### ***SCENARIO C***

The peer review report for an engagement review included the following deficiency;

1. During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework. This deficiency was noted in the firm's previous peer reviews.

The firm's Letter of Response included the following;

1. We will take CPE in reporting on financial statements using a special purpose framework.

### ***QUESTION 1***

How could the firm's response be changed to comply with peer review standards?

### ***SOLUTION 1***

This question is also designed to generate discussion among each group and as such, there is no singular correct answer. Below is Staff's suggested response.

1. The firm has scheduled a training on performing and reporting on financial statements using the cash bases on May 30, 2018. Additionally, all reports will go through a secondary review by a partner not associated with the engagement to

ensure the reports have been completed in accordance with applicable professional standards.

## CASE # 2

### Engagement Reviews – Non-Conforming 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*

Luke Berry is the review captain for the review of Pinson, Maye and Robinson LLP (PMR). Mr. Berry selected the following engagements for his review.

- A review engagement performed by Pinson
- A compilation with disclosures performed by Maye
- A compilation without disclosures performed by Maye
- A preparation engagement with disclosures performed by Robinson, which was selected because it is the only engagement he performs

As a result of his review, Mr. Berry noted the following issues:

- On the review engagement, the firm failed to include all relevant disclosures related to related party transactions, however, this did not affect the reviewer's understanding of the financial statements and the related accountant's report.
- On the compilation with disclosures engagement, the firm omitted the phrase "(We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA."
- On the compilation without disclosures engagement, the report stated the financial statements were prepared in accordance with "accounting principles generally accepted in the United States of America" when in fact, they were prepared on a tax basis.
- On the preparation engagement, the firm did not sign the engagement letter signed by its client.

#### *QUESTION 1*

Which of the engagements reviewed should be identified as non-conforming?

#### *SOLUTION 1*

**Mr. Berry should identify the compilation engagement without disclosures and the preparation engagement as non-conforming.**

According to Appendix E, Areas of Common Noncompliance With Applicable Professional Standards, of PRP Section 6200 identifies the following as matters and findings that generally would 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).

Therefore, the review engagement and the compilation engagement with disclosures would not contain deficiencies (in other words, would not be considered non-conforming).

Additionally, Appendix E, states 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, would be considered non-conforming).

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 non-conforming), 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.

## ***QUESTION 2***

Which of the following item(s) is false when the review captain identifies a non-conforming engagement (which are required to be 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 appropriateness of any firm responses to the deficiencies noted should be discussed during the exit conference.
- d) The firm is not required to respond to the MFCs noted if deficiencies are also noted.

## ***SOLUTION 2***

**The correct answer is choice D.**

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.

All of the other answer choices are also required as part of an engagement review when non-conforming engagements are identified.

### ***QUESTION 3***

What is required in the firm's letter of response when deficiencies/non-conforming engagements are identified?

### ***SOLUTION 3***

**According to Standards paragraph .125, "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."**

The purpose of the firm's response on the FFC form and in the letter of response is for a firm to stipulate, in writing, the specific action(s) that will be taken to correct findings and deficiencies noted by the reviewer. The action(s) should be feasible, genuine, and comprehensive and if the firm's response is not deemed to be comprehensive, genuine, and feasible, the review captain should request a revised response.

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 in limited circumstances but firms should be able to articulate why in light of the fact that that users of the engagement incorrectly assume the engagement was performed and reported on correctly.

### ***SCENARIO B***

Luke Berry is the review captain for the review of Manley & Huffman LLP (MH). Mr. Berry selected the following engagements for his review.

- A review engagement performed by Manley
- A review engagement performed by Huffman

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

- There were 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. Manley be identified as non-conforming?

### ***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 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 non-conforming.

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.

Discussion leaders should note that 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, then a deficiency should be issued and the engagement should be identified as non-conforming.

## CASE # 3

### 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*

S.L. Snoke, CPA (Snoke) was engaged to perform an engagement review for Kylo, Ren and Johnson LLP (KRJ), for the peer review year-ended 12/31/2017. Snoke obtained an engagement listing from KRJ and selected the following engagements subject to Statements on Standards for Accounting and Review Services (SSARS) as part of the review:

<b>Selected</b>	<b>Level of Service</b>	<b>Responsible Party</b>
1	Review of financial statements	Kylo
1	Compilation of financial statements, omitting substantially all disclosures	Johnson

After reviewing the engagements selected, Snoke drafted MFC forms related to the following matters:

- For the compilation engagement, the report failed to explain the degree of responsibility KRJ assumed with respect to supplementary information.
- Also for 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 management representation letter was signed by the clients and included in the engagement files, but failed to address all requirements of SSARS No. 21.

#### *QUESTION 1*

Is it appropriate for Snoke 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 management representation letter that did not fully comply with the requirements of SSARS No. 21.

**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 Snoke selected the same engagements for review and drafted MFC forms related to the following matters:

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

### **QUESTION 1**

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

### **SOLUTION 1**

**No. None of the matters identified in scenario B are substantially the same, and therefore should not be aggregated into a single FFC form.** 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 # 4

### Engagement Reviews – Proper Engagement Selection

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

The accounting firm of Braxton & Beverly, LLP is undergoing an Engagement Review. There are two partners in the firm that perform A&A work, and no other individuals are responsible for issuing reports.

The Engagement Summary Form provided to the Review Captain reflects the following information:

	Braxton	Beverly
Reviews (SSARS)	4	0
Compilations (w/ disclosures)	3	0
Preparations (w/ disclosures)	1	6

#### **QUESTION 1**

Given the information above, which engagement(s) should the Review Captain select and why?

#### **SOLUTION 1**

**The Review Captain should select the following engagements:**

- 1. One Review Engagement (Braxton)**
- 2. One Compilation with Disclosures Engagement (Braxton)**
- 3. One Preparation with Disclosures Engagement (Beverly)**

**Peer Review Program Section 6200, paragraph .14, states the following:**

*The number of engagements selected should ordinarily adhere to the following guidelines for reviewers:*

*a. Select one engagement from each of the following levels of service performed by the firm:*

- 1. Review of financial statements (performed under SSARS)*
- 2. Compilation of financial statements with disclosures (performed under SSARS)*
- 3. Compilation of 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 disclosures 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*

**The Review and Compilation Engagements should be selected to satisfy item a within the guidance above. The Preparation Engagement should be selected to satisfy items b and c within the guidance above, as Beverly only issues Preparation engagements and at least one of his engagements should be selected.**

### ***QUESTION 2***

How would the answer to Question 1 change if Beverly did not perform A&A work?

### ***SOLUTION 2***

**The Preparation Engagement would not be selected since the fact pattern does not meet any criteria in *item c* of the guidance noted in Solution 1.**

## CASE # 5

### Engagement Reviews – Addressing SSARS No. 21/23 Issues

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 following is a compilation report prepared in accordance with a special purpose framework. The period end for the engagement is December 31, 2017.

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 2017 and 2016 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's report]*

Note: the accompanying financial statement titles are appropriate given the special purpose framework

#### ***QUESTION 1***

Was the report prepared in accordance with professional standards?

#### ***SOLUTION 1***

**No, the report was not prepared in accordance with professional standards for the following reasons:**

- In the first paragraph, the financial statement titles are not those used with the special purpose framework
- The phrase “and for determining that the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities is an acceptable financial reporting framework” is not included in the first sentence of the first paragraph of the compilation report.

## **QUESTION 2**

What impact does this report have on the firm’s peer review?

## **SOLUTION 2**

The engagement should be considered non-conforming and would result in a deficiency or significant deficiency because it is apparent in the report and financial statements that the financial statements are prepared in accordance with a special purpose framework. Applicable excerpts from PRP Section 6200, *Appendix E Areas of Common Noncompliance With Applicable Professional Standards* follow;

### **List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency**

#### **Reports**

- Inappropriate references to GAAP in the accountant’s report when the financial statements were prepared using a special purpose framework.

## **SCENARIO B**

The following is a review report prepared in accordance with generally accepted accounting principles. The period end for the engagement is December 31, 2017

### **Independent Accountant’s Review Report**

[Appropriate Addressee]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management’s (owners’) financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

### ***Management’s Responsibility for the Financial Statements***

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### ***Accountant's Responsibility***

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provide a reasonable basis for my (our) conclusion.

Based on my (our) reviews, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*[Signature of accounting firm or accountant, as appropriate]*

*[Accountant's city and state]*

*[Date of the accountant's review report]*

### ***QUESTION 1***

Was the report prepared in accordance with professional standards?

### ***SOLUTION 1***

**No, the report was not prepared in accordance with professional standards for the following reasons**

- The conclusion paragraph does not have a heading ("Accountant's Conclusion")
- The Accountant's Responsibility paragraph has not been updated with the language from the most current applicable standards

### ***QUESTION 2***

What impact does this report have on the firm's peer review?

### ***SOLUTION 2***

The preceding matters would not result in a nonconforming engagement, nor a deficiency.

Applicable excerpts from PRP Section 6200, *Appendix E Areas of Common Noncompliance With Applicable Professional Standards* follow:

#### **List of Matters and Findings That Generally Would Not Result in a Deficiency Reports**

- Omission of phrases or use of phrases not in conformity with the appropriate standards for the report issued.

### ***SCENARIO C***

A review captain read the engagement letter for a review engagement (period end 12/31/2017) prepared in accordance with SSARS. The engagement letter did not indicate that the firm prepared the financial statements. During the review of the engagement, the review captain noted it was apparent that the firm prepared the client's financial statements.

### ***QUESTION 1***

What impact does the preceding scenario have on the peer review?

### ***SOLUTION 1***

The preceding matter would not result in a nonconforming engagement, nor a deficiency.

Per PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Not Result in a Deficiency:

#### **SSARS Procedures (Including Documentation)**

- The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of...SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification (AICPA, Professional Standards) (with the exception of the signature requirement which is discussed in the following section).

### ***QUESTION 2***

Assume the firm provided multiple services to the client, but the "engagement letter" did not include any of the following elements:

- objective of the engagement
- management and accountant's responsibilities
- any limitations associated with the respective levels of service to be provided
- applicable reporting framework
- expected form and content of report, if applicable
- and, if applicable, whether the financial statements are to contain any known departures from the applicable reporting framework or omit substantially all required disclosures.

What impact does the preceding scenario have on the peer review?

### ***SOLUTION 2***

**If the firm was not able to provide other written evidence to support the required understanding between the firm and management, then the engagement should be deemed nonconforming, and a deficiency or significant deficiency should be noted in the peer review report.**

Per PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

#### **SSARS Procedures (Including Documentation)**

- Failure to establish an understanding with management regarding the services to be performed through a written communication (for example, an engagement letter).

## CASE # 6

### Engagement Reviews – Writing Deficiencies

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

#### ***QUESTION 1***

Engagement review deficiencies should be written with an engagement focus. What are the required elements of a deficiency or significant deficiency?

#### ***SOLUTION 1***

According to PRP Section 6250 *Examples of Deficiencies That Might Be Included in an Engagement Review Report*,.04 On an Engagement Review, the deficiencies in the report should be written with an “engagement” orientation and include the following:

- a. What did the peer review disclose (ordinarily an engagement that fails to comply with professional standards in all material respects)? **What was the failure to comply with professional standards in all material respects?**
- b. **An identification of the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific.** For example, when there are numerous generic disclosure deficiencies then the industry and level of service wouldn't be specifically identified. However, if the deficiencies are related to a specific industry (such as those unique to the construction contractor industry), then the industry and level of service would be identified.
- c. **Using the term significant deficiencies as a caption before all of the identified deficiencies only when a report with a peer review rating of fail is issued.**
- d. If any of the current deficiencies or significant deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, then that fact should be identified by stating, **“This deficiency was noted in the firm's previous peer review.”** (See Interpretation 96n-1, “Reporting on System and Engagement Reviews When a Report With A Peer Review Rating of Pass With Deficiency or Fail is Issued,” of paragraph .96 in section 1000, “Standards for Performing and Reporting on Peer Reviews” (sec. 2000, “Peer Review Standards Interpretations,” question 96n-1.)

#### ***QUESTION 2***

From the list below, select the item(s) that the reviewer should avoid in writing a deficiency or significant deficiency.

- a. The partner's name of the engagement resulting in the deficiency.
- b. The number of engagements the situation occurred in.
- c. Long definitions for generally known acronyms, such as CPE.
- d. Identifying the exact professional reference.
- e. Including best practices.

### ***SOLUTION 2***

**The correct answer is all of the above except C.** As noted below, acronyms should not be used because deficiencies should be easy to understand to a variety of audiences.

According to PRP Section 6250 *Examples of Deficiencies That Might Be Included in an Engagement Review Report*.<sup>05</sup> On an Engagement Review, deficiencies in the report should avoid

- a. including personal preferences. Deficiencies should be based on professional standards. Reviewers are occasionally surprised to find that some generally accepted professional standards are, in reality, only a preferred treatment by their firm.
- b. identifying the firm's policies and procedures.
- c. referencing specific individuals, offices, or third party practice aides.
- d. using undefined acronyms such as GAAP, CPE, or FASB.
- e. identifying the exact number or frequency of occurrence. Terms such as in some instances or frequently should be used in a written deficiency.
- f. identifying references to specific technical standards, unless it is critical to the understanding of the deficiency, in which case the deficiency should be written in a sufficient and succinct manner describing the technical standards in the proper context. Otherwise, the use of the general term professional standards should be used in a written deficiency.

### ***QUESTION 3***

Which of the following statements is false regarding repeat deficiencies in an Engagement Review?

- A. A deficiency cannot be considered a repeat if the deficiency noted in the current review is substantially the same as a finding noted in the prior review.
- B. A deficiency in the current review for failure to disclose significant related party transactions would be considered a repeat if the prior review had a deficiency for failure to disclose all significant accounting policies applied.
- C. A deficiency or significant deficiency is considered a repeat if the deficiency in the current review was caused by the same system of quality control weakness noted in the prior review's report.
- D. All of the above statements are false.

### ***SOLUTION 3***

**The correct answer is D.**

According to Interpretation No. 96n-1, “On Engagement Reviews, a repeat is one in which the identified engagement deficiency or significant deficiency is substantially the same (that is, the same kind or very similar) as noted in the prior review’s report as it relates to reporting, presentation, disclosure or documentation. For example, if a reviewer notes an engagement that had a disclosure or a financial statement presentation deficiency in a prior review’s report, the disclosure or financial statement presentation deficiency noted in the current review would need to be substantially the same disclosure or financial statement presentation deficiency to qualify as a repeat. The preceding also applies when the deficiency or significant deficiency noted during the current review was substantially the same as was noted on a FFC form in the prior review. Under these circumstances, it would still be appropriate to use the same wording as previously described: ‘This deficiency [or significant deficiency, as applicable] was noted in the firm’s previous peer review.’”

According to that Interpretation, answer choices A and B are false.

Also, according to Interpretation No. 96n-1, “On System Reviews, a repeat is a deficiency or significant deficiency noted during the current review that was caused by the same system of quality control weakness noted in the prior review’s report.” Therefore, answer choice C is also false, making answer choice D the correct answer.

### ***QUESTION 4***

Which of the following would not result in a deficiency in the report due to the nature of the findings noted?

A. Deficiency—On a review engagement of a manufacturing client, we noted that the accompanying accountant’s report was not appropriately modified when the financial statements did not appropriately present or disclose matters in accordance with industry standards.

B. Deficiency—On a review engagement, we noted that the firm failed to obtain a management representation letter, and its working papers failed to document the matters covered in the accountant’s inquiry and analytical procedures. These deficiencies were noted on the firm’s previous review.

C. Deficiency—During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework. This deficiency was noted in the firm’s previous peer reviews.

D. Deficiency—On a review engagement, we noted that the accompanying accountant’s report was not appropriately modified when the statement of cash flows did not appropriately classify transactions.

***SOLUTION 4***

**The correct answer is D.**

Paragraph 46 of *Instructions to Reviewers Performing Engagement Reviews* identifies certain situations which would result in a deficiency on an engagement review and other situations which would not result in a deficiency. Misclassification of items in a statement of cash flow is included in the list of items that would not result in a deficiency.

## CASE # 7

### Engagement Reviews – Repeat Findings and Deficiencies

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*

In a firm's previous peer review, the Review Captain noted on a preparation engagement that the firm did not obtain an engagement letter signed by both the firm and the client's management. During the current review, the reviewer identified a deficiency related to a compilation engagement whereby the firm did not obtain an engagement letter signed by both the firm and the client's management.

#### *QUESTION 1*

Should the reviewer identify the deficiency as a repeat in the current peer review?

#### *SOLUTION 1*

**Yes. As the deficiencies are substantially the same, the current peer review report would include a repeat deficiency.** The fact that it was a preparation engagement in the first review and a compilation in the second review does not impact the type of deficiency, which is failing to obtain an engagement letter signed by both the firm and the client's management.

Per PRP Section 2000, Interpretation 96n-1:

On Engagement Reviews, a repeat is one in which the identified engagement deficiency or significant deficiency is substantially the same (that is, the same kind or very similar) as noted in the prior review's report as it relates to reporting, presentation, disclosure or documentation. For example, if a reviewer notes an engagement that had a disclosure or a financial statement presentation deficiency in a prior review's report, the disclosure or financial statement presentation deficiency noted in the current review would need to be substantially the same disclosure or financial statement presentation deficiency to qualify as a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was substantially the same as was noted on a FFC form in the prior review. Under these circumstances, it would still be appropriate to use the same wording as previously described: "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review."

**In accordance with PRP Section 6200, Appendix E, the reviewer's conclusion to identify the issue as a deficiency is appropriate.**

Per PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

**SSARS Procedures (Including Documentation)**

- For engagements performed in accordance with SSARS No. 21, failure to obtain all required signatures on the engagement letter (or other suitable written agreement)

***QUESTION 2***

If the review captain identifies this issue as a repeat deficiency, what would be the proper course of action for the firm and review captain?

***SOLUTION 2***

**According to Standards paragraph .124, the firm would be required to respond to the deficiency in a letter of response which is addressed to the administering entity's peer review committee. The review captain should review and evaluate the letter of response prior to the exit conference. The review captain should assess whether the response is appropriate and consider any additional impact to the peer review results.**

The fact that the deficiency is a repeat deficiency should be considered by the review captain when determining the appropriateness of the firm's response. The firm's response may not be appropriate if it is too similar to the firm's response to the previous deficiency, as the current deficiency is evidence that the firm's previous response did not fully address the problem.

Additionally, as this is a repeat deficiency that the firm has not corrected, the Report Acceptance Body would generally require the firm to agree to and complete a corrective action. The decision of what corrective actions are appropriate is a matter of professional judgment that each RAB makes based on the applicable facts and circumstances.

***Per PRP Section 3300, Section III***

*A RAB's conclusions and actions regarding the repeat deficiencies could be affected by several factors, including the reason for the repeat deficiencies, the firm's response to the repeat deficiencies, and whether corrective action was requested on the prior review, type of action requested, and whether it was completed.*

***QUESTION 3***

What additional considerations should be made if the deficiency was repeated for a third time?

***SOLUTION 3***

**If a deficiency has occurred on two or more prior reviews, the reviewer will need to adjust the report accordingly. If the firm has repeatedly failed to correct identified issues, it may be considered as failing to cooperate.**

Per PRP Section 2000, Interpretation 96n-1:

For System Reviews and Engagement Reviews in which there are repeat deficiencies or significant deficiencies that have occurred on two or more prior reviews the reviewer should state in the current report that, “this deficiency [or significant deficiency, as applicable] was noted on previous reviews.”

A firm that repeatedly receives peer reviews with consistent deficiencies or significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. For such firms that fail to cooperate, the AICPA Peer Review Board may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm’s enrollment in the AICPA peer review program should be terminated or some other action taken. Therefore, it is critical that peer reviewers appropriately identify the systemic causes of deficiencies and significant deficiencies on System Reviews and that reporting on System and Engagement Reviews is appropriate.

#### ***QUESTION 4***

How would the answers to the previous questions change if the review captain had instead noted for each engagement that the engagement letter for the engagements existed, and was signed, but did not describe the responsibilities of the accountant?

#### ***SOLUTION 4***

**In this situation, the review captain could issue an FFC for the current review and should indicate that it is a repeat FFC. The firm would respond to the finding on the Form itself and the review captain would still review the firm’s response for appropriateness and consider if any changes to the preliminary peer review results are warranted. The firm may also be assigned an implementation plan by the RAB.**

*\*Note that if an item is considered a deficiency on the previous review and an FFC on the current review, that item would be considered a repeat FFC.*

Per PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Not Result in a Deficiency:

#### **SSARS Procedures (Including Documentation)**

- The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of...SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification (AICPA, Professional Standards) (with the exception of the signature requirement which is discussed in the following section).

According to Standards paragraph .110b, *“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.”*

Per Interpretation No. 83-2, *“On Engagement Reviews, a repeat is one in which the identified finding is substantially the same (that is, the same kind or very similar) as noted on a FFC form in the prior peer review as it relates to reporting, presentation, disclosure or documentation. For example, if a reviewer notes an engagement that had a disclosure or financial statement presentation finding on a FFC form in the prior peer review, the disclosure or financial statement presentation finding noted in the current review would need to be substantially the same disclosure or financial statement presentation finding to qualify as a repeat.*

*A firm that repeatedly receives peer reviews with consistent findings that are not corrected may be required to complete an implementation plan.”*

Standards paragraph .125 states, *“If the firm receives an FFC 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.”*

Finally, Standards paragraph .126 states, *“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.”*

## CASE # 8

### 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*

Kerrigan Accounting Firm is currently undergoing an Engagement Review. The review captain reviewed 4 engagements and deemed one engagement to be non-conforming.

#### *QUESTION 1*

What report rating would be appropriate given the review captain's findings regarding one non-conforming engagement?

#### *SOLUTION 1*

**The firm would receive a report with a peer review rating of *pass with deficiencies*.**

*Per 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.*

#### *SCENARIO B*

Kerrigan Accounting Firm is currently undergoing an Engagement Review. The review captain reviewed 4 engagements and deemed all four engagements to be non-conforming.

#### *QUESTION 1*

What report rating would be appropriate given the review captain's findings regarding all engagements reviewed?

#### *SOLUTION 1*

**The firm would receive a report with a peer review rating of *fail*.**

*Per 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 2**

What should Kerrigan Accounting Firm include in its response to any deficiencies or significant deficiencies noted in the peer review report?

## **SOLUTION 2**

**The firm's response to any deficiencies or significant deficiencies noted in the peer review report should outline the actions taken or planned to remediate nonconforming engagements and should be comprehensive, genuine, and feasible.**

*Per 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 3**

What are the Review Captain's responsibilities in regards to the firm's letter of response?

## **SOLUTION 3**

**The Review Captain should review, evaluate, and comment on the reviewed firm's letter of response prior to its submission to the administering entity. Although the LOR is ultimately the firm's responsibility, the review captain and firm may collaborate to determine the response and ensure that it is comprehensive, genuine, and feasible.**

*Per 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 4**

Can the Review Captain and/or RAB request the firm to correct and/or reissue the non-conforming engagements?

#### **SOLUTION 4**

**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.**

*Per PRP Section 3100—Supplemental Guidance:*

*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.*

## CASE # 9

### Engagement Reviews – Areas of Common Non-Compliance with Applicable Professional Standards

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

Listed below are areas of common noncompliance with applicable professional standards. Determine whether each item should be an exit conference item, rise to the level of a matter, rise to the level of a finding, or rise to the level of a deficiency:

1. A firm's review engagement fails to disclose related party transactions that are insignificant.
2. The firm fails to disclose its lack of independence in a compilation report.
3. A firm's review engagement fails to include a significant disclosure regarding a defined employee benefit plan.
4. A firm's compilation report fails to disclose the omission of substantially all disclosures.
5. A firm includes significant receivables in a compiled set of cash basis financial statements.
6. A firm fails to disclose its client's income recognition policy on a compilation engagement with disclosures.
7. A firm fails to disclose material deferred taxes on a review engagement.
8. A firm does not title its accountant's report.
9. A capital lease is recorded as an operating lease on a review engagement performed by a firm. The firm fails to identify the issue.
10. A firm's compilation report indicates that substantially all disclosures were omitted when the disclosures are actually included with the financial statements.
11. A firm fails to disclose the cumulative effect of a change in accounting principle in a review engagement.
12. A firm's review report indicates that a statement of functional expenses is included in the financial statements when the statement is not included.
13. A firm fails to perform and document analytical procedures in a review engagement.
14. The firm fails to include language in the accountant's review report indicating the degree of responsibility the accountant is taking for supplementary information.
15. A firm fails to obtain a management representation letter on a review engagement.
16. One of the firm's engagement letters refers to GAAP when the engagement was prepared under a special purpose framework.
17. A representation letter obtained by the firm does not cover all periods presented in a review engagement.
18. A firm fails to include all relevant fair value disclosures in a compilation engagement with disclosures.

## ***SOLUTION***

**Reviewers and RABs should consult PRP 6200 Appendix E *Areas of Common Noncompliance with Applicable Professional Standards* to determine whether items should rise to the level of a deficiency. Additionally, reviewers and RABs should consult the definitions of a matter, finding and deficiency located in paragraph .110 of the Standards to assist with the proper aggregation and elevation of issues identified. Even though a required disclosure may be considered insignificant, the matter would still rise to the level of an FFC. The definition of a finding only indicates whether the issue identified by the reviewer is a departure from applicable professional standards. A deficiency is defined as a finding that is material to the understanding of the financial statement or the omission of a critical procedure. Paragraph .110 of the Standards reads as follows:**

.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 and/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 and/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 and/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 and/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 and/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*.

The individual assessment of each item is as follows:

1. Based on the definition of a finding in paragraph .110 of the Standards, this would result in an FFC. However, if the related party transaction was significant, the issue would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Not Result in a Deficiency:

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).

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to disclose significant related party transactions.

2. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to disclose the lack of independence in a compilation report.

3. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to disclose, in the accountant's report, significant departures from professional standards (examples include omission of significant income tax provision on interim financial statements, omission of significant disclosures related to defined employee benefit plans, or omission of required supplemental information for a common interest realty association).

4. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (if applicable) required by the applicable financial reporting framework.

5. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Inclusion of material balances that are not appropriate for the basis of accounting used.

6. Based on the definition of a finding in paragraph .110 of the Standards, this would result in an FFC.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Not Result in a Deficiency:

Omission of the disclosure of the method of income recognition as required by professional standards.

7. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to include material amounts or balances necessary for the basis of accounting used (examples include omission of accruals, failure to amortize a significant intangible asset, failure to provide for losses or doubtful accounts, or failure to provide for deferred income taxes).

8. This would result in a matter and then be discussed as an exit conference item.

Although not specifically addressed in PRP 6200, this item is generally considered an immaterial departure from professional standards.

9. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Improper accounting of a transaction (for example, recording a capital lease as an operating lease).

10. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Disclosure of omission of substantially all disclosures (in a compilation without disclosures) in fact when substantially all disclosures have been included.

11. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to disclose the cumulative effect of a change in accounting principles.

12. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Omission of actual financial statement(s) that is (are) referred to in the report.

13. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

For review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures.

14. Based on the definition of a finding in paragraph .110 of the Standards, this would result in an FFC.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Not Result in a Deficiency:

Failure to explain the degree of responsibility the accountant is taking with respect to supplementary information.

15. This would result in a deficiency.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

For review engagements, failure to obtain a client management representation letter.

16. Based on the definition of a finding in paragraph .110 of the Standards, this would result in an FFC. Since the engagement letter exists, the guidance related to SSARS 19 can be applied.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Not Result in a Deficiency:

The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of SSARS 19.

17. Based on the definition of a finding in paragraph .110 of the Standards, this would result in an FFC. PRP 6200 indicates that it is a deficiency not to obtain a representation letter. Since the representation letter was obtained, an FFC would be appropriate.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

For review engagements, failure to obtain a client management representation letter.

18. This would result in a deficiency. This is considered a significant departure from professional standards.

PRP 6200 Appendix E, Lists of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to disclose, in the accountant's report, significant departures from professional standards (examples include omission of significant income tax provision on interim financial statements, omission of significant disclosures related to defined employee benefit plans, or omission of required supplemental information for a common interest realty association).

## CASE # 10

### Engagement Reviews – Firm Representation Letters

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**

The review captain completed an Engagement Review of Grayber CPA Group on June 15, 2018. On that date, the reviewed firm provided the following representation letter. We have included the relevant portion of Appendix B – *Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review* in the conference case materials for reference.

**GRAYBER CPA GROUP**  
123 MAIN STREET  
MINNEAPOLIS, MN 12325

June 15, 2018

To the Review Captain:

We are providing this letter in connection with the peer review of Grayber CPA Group as of the date of this letter and for the year ended December 31, 2017.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which Grayber CPA Group or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the review captain with periods ending during the year under review. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this

may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,

Grayber CPA Group

### ***QUESTION 1***

Identify all instances where the firm's representation letter fails to conform to the applicable guidance.

### ***SOLUTION 1***

**The firm's representation letter fails to conform to the applicable guidance in PRP 1000.208, Appendix B – *Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review*. The missing information is bolded and underlined in the illustration below.**

October 31, 20XX

To [Name of Review Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory

bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the review captain with periods ending during the year under review, **regardless of whether issued. This list included, but was not limited to, all engagements performed under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of broker-dealers, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable.** The firm does not perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

Sincerely,  
[Signature(s)\*]

## ***QUESTION 2***

Is the representation letter appropriately signed?

## ***SOLUTION 2***

**The firm's representation letter should be signed by members of management that are responsible for and knowledgeable about the matters covered in the**

**representations, the firm and its system of quality control should sign the letter. The letter should not be signed with the firm name.**

PRP 1000.208 states:

“3. ...The written representations should be signed by those members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner or manager in charge of the firm’s system of quality control.”

### ***SCENARIO B***

The review captain received the firm’s list of engagements and representation letter for an engagement review. Paragraph three from the firm’s representation letter is provided below.

We have also provided a list of all engagements to the review captain with periods ending during the year under review whether issued or not. We did not perform any engagements under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations Service Organizations Control (SOC) 1 and 2 engagements. For financial forecasts or projections and agreed upon procedures, the list included those engagements with report dates during the year under review.

### ***QUESTION 1***

Identify all instances where the excerpt from the firm’s representation letter fails to conform to the applicable guidance.

### ***SOLUTION 1***

**The firm’s representation letter fails to conform to the applicable guidance in PRP 1000.208, Appendix B – *Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review*. The corrected verbiage is bolded and underlined in the illustration below.**

We have provided a list of all engagements to the review captain with periods ending during the year under review, **regardless of whether issued. The firm** does not perform engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, **audits of broker-dealers**, examinations of service organizations (SOC 1 and SOC 2 engagements), **engagements under the Statements on Auditing Standards (SAs), examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.**

***QUESTION 2***

The firm's representation letter was not printed on firm letterhead. Is this required?

***SOLUTION 2***

**PRP 1000.208, Appendix B – *Considerations and Illustrations of Firm Representations* does not specifically state that the firm is required to provide the representation letter on firm letterhead. However, it is recommended.**

## **Appendix B**

### **Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review**

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.)

October 31, 20XX

To [Name of Review Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the review captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of broker-dealers, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's

ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

Sincerely,

[Reviewed Firm Representative(s)]

## CASE # 11

### Engagement Reviews – Non-Attest 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:** 15 Minutes

#### SCENARIO 1

John Smith performs the engagement review of Applebee, Dunbar & Co., CPAs for the year ended June 30, 2018. For its review engagement, the firm returned profile information excerpted below:

What types of non-attest 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 non-attest service type previously identified, identify the following (attach additional sheets, if necessary):

- Specific non-attest service: *calculated and posted depreciation, adjusted receivables allowance and prepared financials from resulting trial balance*
- Individual in your firm responsible: *A&A Manager*
- Name(s) and title of client personnel overseeing this service: *Liza Simon, bookkeeper*
- 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: *Have worked with Liza for many years*

Did any of the non-attest service(s) involve leading and directing the entity, including making significant decisions or assuming management responsibilities? *No*

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 the review captain expect to see documented regarding non-attest services?

### ***SOLUTION 1***

**The review captain should expect to see that the accountant has established and documented in writing the accountant's understanding with the client, which should include (ET sec. 1.295.040):**

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

**The review captain should ensure that the documentation is specific in describing the non-attest services, and addresses the above for each of the non-attest services performed. General verbiage regarding "all non-attest services" is not considered sufficient if it does not identity the specific non-attest services.**

### ***QUESTION 2***

What are the peer review implications if the accountant's understanding with the client is not documented in writing?

### ***SOLUTION 2***

**PRPM Section 3100 Supplemental Guidance's article "Implications of Performing Non-attest Services" indicates:**

**“...However, if a firm fails to meet the documentation requirements of “Documentation Requirements When Providing Non-attest 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 Non-attest Services” interpretation (AICPA, *Professional Standards*, ET sec. 1.295.040).....”**

### ***QUESTION 3***

Are any of the non-attest services performed specifically prohibited under professional standards?

### ***SOLUTION 3***

**The review captain needs further information from the firm as to the journal entries posted for depreciation and receivables. For example, the review captain needs to ensure the firm has not assumed management responsibilities as part of their non-attest service, such as authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an attest client or having the authority to do so.**

Ethics 1.295.030.02 indicates:

- .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 the bookkeeper overseeing the non-attest services have sufficient skills, knowledge and experience (SKE) to do so?

#### ***SOLUTION 4***

**The firm has not provided sufficient information to determine whether the bookkeeper possesses suitable and adequate SKE. The review captain should inquire further of the firm on the bookkeeper's skills, knowledge and experience (SKE), the firm's assessment of it and why the firm believes the SKE to be suitable and adequate. The assessment of SKE goes beyond identifying the individual's name and title or certification.**

Ethics 1.295.040.01 indicates:

When a member performs a non-attest 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 "Non-attest 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
  - i. Assume all management responsibilities as described in the "Management Responsibilities" interpretation [1.295.030].
  - ii. 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.

- iii. Evaluate the adequacy and results of the services performed.
  - iv. 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 non-attest services and the member is satisfied that the attest client and its management will
- i. Be able to meet all of the criteria delineated in item a;
  - ii. Make an informed judgment on the results of the member’s non-attest services; and
  - iii. 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 non-attest services provided or is unwilling to carry out such responsibilities due to lack of time or desire), the member’s performance of non-attest services would impair independence.

### ***QUESTION 5***

If the engagement team is unable to provide evidence (in the workpapers or verbally) that the bookkeeper possessed suitable and adequate SKE, and there was no other individual to oversee the non-attest services who possessed suitable and adequate SKE, what is the effect on the engagement?

### ***SOLUTION 5***

**Threats would not be at an acceptable level, and the firm would not be independent. Therefore the engagement would be classified as nonconforming. An MFC form would ordinarily be prepared, which would be evaluated for elevation.**

**PRPM Section 3100 Supplemental Guidance’s article “Implications of Performing Non-attest Services” indicates:**

“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***

The review captain notes that the reviewed firm performed multiple non-attest services for this client. What non-attest guidance could he discuss at the exit conference with the reviewed firm that will affect the firm's next year engagement?

### ***SOLUTION 6***

**Non-attest guidance notes that before agreeing to perform non-attest services, the reviewed firm should evaluate whether the performance of multiple non-attest 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 contained in the "General Requirements for Performing Non-attest Services" interpretation (AICPA, Professional Standards, ET sec. 1.295.040).**

Under the new provision, if the reviewed firm determines that threats are not at an acceptable level, safeguards in addition to those "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, independence would be impaired.

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), indicates that:

- .01 The *interpretations* of the "Non-attest Services" subtopic [1.295] under the "Independence Rule" [1.200.001] include various examples of non-attest services that individually would not *impair independence* because the *safeguards* in the "General Requirements for Performing Non-attest 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 non-attest services, the member should evaluate whether the performance of multiple non-attest 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 Non-attest 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 Non-attest 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 # 12

### Engagement Reviews – Preparation of Financial Statements

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*

Paige, Britt and Berry LLP (the firm) has historically performed SSARS 21 engagements for The Guards Point Co. (the company). This year, prior to preparing the company's financial statements, the firm's partners decide to become members of the AICPA.

#### *QUESTION 1*

If the firm issued a disclaimer report on its preparation engagement for the company, and performed no other accounting or auditing work, is the firm required to enroll in the AICPA's peer review program?

#### *SOLUTION 1*

**No, the Standards do not require a firm to enroll in the AICPA's peer review program if its highest level of service is a preparation of financial statements under SSARS.**

Per Paragraph .07 of the Standards: "Firms that only perform services under SSARS or services under the SSAEs not included in System Reviews are eligible to have peer reviews called Engagement Reviews, however firms that only perform preparation engagements (with or without disclaimer reports) under SSARS are not required to enroll in the program (see interpretations)."

However, the firm may still enroll in the program. An example of such a situation would be if the firm is licensed by a state board that requires firms that perform preparation engagements to enroll a peer review program. Firms that perform preparation engagements as is highest level of service should consult with its state board(s) to determine if enrollment in the peer review program is required.

#### *QUESTION 2*

Assuming the same facts outlined in Question 1, if the firm enrolls in the AICPA's peer review program, would they be required to undergo a peer review?

#### *SOLUTION 2*

**Yes, the firm would be required to undergo a peer review. The performance of a preparation of financial statements engagement under SSARS No. 21 would require the firm to have peer review, if the firm enrolls in the program.**

Interpretation 7-3 is as follows:

“7-3 Question— A firm is not required to enroll in the AICPA peer review program if its only level of service is performing preparation engagements (with or without disclaimer reports) under SSARS. However, if the firm elects to enroll in the peer review program is the firm required to have a peer review?”

Interpretation— Yes. If a firm is required to enroll in the peer review program due to licensing or other requirements or otherwise elects to enroll in the peer review program, and its only level of service is performing preparation engagements (with or without disclaimer reports) under SSARSs, it is required to have a peer review. The peer review is required to be performed under these standards.”

If an enrolled firm only performs preparation engagements, the reviewer may want to discuss whether the firm wants to remain enrolled, particularly if the firm is licensed in states that do not require enrollment for firms that only perform preparation engagements. Firms that only perform preparation engagements may unenroll from the program by submitting a letter of resignation to the board as long as their peer review has not commenced.

### ***QUESTION 3***

Would the answers to Questions 1 and 2 change if the firm was able to include a legend on each page of the financial statements, in accordance with AR-C Section 70 paragraph .14, and did not issue a disclaimer report?

### ***SOLUTION 3***

**No. The answers to Questions 1 and 2 would remain the same.**

Please note that questions 1 through 3 pertain to whether the firm is required to enroll in the AICPA’s peer review program. They do not address whether the preparation engagement would be in scope of any peer review performed on the firm. Whether or not the firm’s preparation engagement would be in scope (that is, eligible to be selected by a reviewer) during a peer review is addressed in the subsequent set of questions.

### ***SCENARIO A - Additional Facts***

The firm hires Meeks, Johnson and Jackson LLP (the review team) to perform their peer review. In addition to the engagement to prepare financial statements, assume the firm also performs reviews and compilations with disclosures. As the most experienced partner, Paige exclusively performs the firm’s review engagements. Britt exclusively performs the firm’s compilation engagements, while Berry, a partner in his first year with the firm, performs a preparation of financial statements engagement without disclosures for the Company as described in Scenario A. The preparation engagement for the company represents the only A&A work performed by Berry for the firm.

### ***QUESTION 1***

Which of the firm's engagements (e.g. a review performed by Paige) should the review team select as part of their engagement review?

***SOLUTION 1***

**The review team should select a review engagement performed by Paige, a compilation engagement performed by Britt and the preparation engagement performed by Berry.**

By selecting these engagements, the review team has met all of the requirements applicable to the firm in Standards paragraph .104.

Standards Paragraph .104 states: "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. Engagement 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."

### ***QUESTION 2***

Which of the firm's engagements (e.g. a review performed by Paige) should the review team select as part of their engagement review if Berry also performs compilation engagements with disclosures?

### ***SOLUTION 2***

**The review team should select a review engagement performed by Paige, a compilation engagement performed by Britt and the preparation engagement performed by Berry.**

The review team would still need to select a preparation engagement from Berry as it is the only engagement performed by the firm that omits disclosures.

In addition to Standards paragraph .104, the interpretations to Standards paragraph .104 provide several engagement selection scenarios for engagement reviews when the reviewed firm performs preparation of financial statements engagements.

### ***QUESTION 3***

Which of the firm's engagements (e.g. a review performed by Paige) should the review team select as part of their engagement review if Berry also performs compilation engagements without disclosures?

### ***SOLUTION 3***

**The review team should select a review engagement performed by Paige, a compilation engagement with disclosures performed by Britt and compilation engagement without disclosures performed by Berry.**

The review team should not select a preparation engagement from Berry as they are able to meet the requirements in paragraph .104 without having to select a preparation of financial statements engagement.

In addition to Standards paragraph .104, the interpretations to Standards paragraph .104 provide several engagement selection scenarios for engagement reviews when the reviewed firm performs preparation of financial statements engagements.

### ***SCENARIO B***

Subsequent to the firm's peer review performed by the review team, Paige decides to leave the firm and takes a job with Nations, Ball & Associates LLP. The firm's review clients elect to continue their relationship with Paige at his new firm. Berry transfers to a role in the firm's tax

practice leaving Britt as the firm's only A&A partner. The firm now only performs compilation engagements with disclosures and the preparation engagement for the company as described in Scenario A.

### ***QUESTION 1***

Which of the firm's engagements (e.g. a compilation performed by Britt) should the review team select as part of their engagement review?

#### ***SOLUTION 1***

**The review team should select a compilation engagement performed by Britt and the preparation engagement performed by Britt.**

As the firm's only engagement without disclosures is a preparation engagement, it is required to be selected in accordance with Standards paragraph .104 item (c).

### ***QUESTION 2***

Which of the firm's engagements (e.g. a compilation performed by Britt) should the review team select as part of their engagement review if the firm performs compilations with disclosures and compilations without disclosures in addition to the preparation engagement described in scenario A?

#### ***SOLUTION 2***

**The review team should select two compilation engagements performed by Britt, one with disclosures and one without disclosures.**

As the firm performs other engagements without disclosures, the firm's preparation engagement should not be selected in accordance with Standards paragraph .104 item (c).

The review team would not need to select the preparation engagement from Britt as they are able to meet the requirements in paragraph .104 without having to select a preparation of financial statements engagement.

### ***QUESTION 3***

Which of the firm's engagements (e.g. a compilation performed by Britt) should the review team select as part of their engagement review if the firm performs one compilation without disclosures engagement in addition to the preparation engagement described in scenario A?

#### ***SOLUTION 3***

**The review team should select the compilation engagement performed by Britt and the preparation engagement in order to select two engagements and meet the requirements in Standards Paragraph .104 (d). Had the firm performed multiple compilations without disclosures, the firm's preparation engagement should not need be selected.**

## **Engagement Review Discussion Topic # 1: System of Quality Control**

### ***QUESTION 1***

Although not required component of an Engagement Review, what are some ways in which your peer review clients often struggle with the elements of a Quality Control System?

- a. Leadership Responsibilities
- b. Relevant ethical requirements
- c. Acceptance and continuance
- d. Human resources
- e. Engagement performance
- f. Monitoring

### ***QUESTION 2***

Do your peer review clients ever request assistance in developing or maintaining their system of quality control? If so, in what sections do they typically ask for assistance?

### ***QUESTION 3***

What sections of the Quality Control Standards create the most challenges for your peer review clients? For your own firm?

Examples of these challenges could be the development of appropriate policies, documentation of the results of the procedures or maintenance of existing policies to account for an evolving practice.

### ***QUESTION 4***

Do your peer review clients struggle with or inquire about how to effectively perform or document the monitoring element of their System of Quality Control? What challenges do they often have? What advice do you have for these firms?

### ***QUESTION 5***

When advising peer review clients about their System of Quality Control, or when you encounter questions in your own firm, what resources do you use?

## **Engagement Review Discussion Topic # 2: Use of Risk Assessment and Scope Expansion in an Engagement Review**

### ***QUESTION 1***

Should a review captain be permitted to select certain engagements based on risk? For example:

- If the firm performs engagements in industries perceived to be riskier than others.
- If a partner or the firm performs limited amounts of a certain level of service.

### ***QUESTION 2***

Have there been engagements from firms that you wanted to select but couldn't based on the selection guidelines?

### ***QUESTION 3***

Are there risk factors (for example, results of the firm's prior review) that, if taken into consideration, could enhance the performance of an Engagement Review?

### ***QUESTION 4***

If there is an incident of non-compliance with professional standards, should a review captain be permitted to expand scope in an engagement review to determine if the matter is isolated?

### ***QUESTION 5***

Should the scope expansion only be allowed if there are other engagements in the exact same level of service or the exact same partner/responsible party?

### ***QUESTION 6***

Assuming an expansion of scope, could the review captain only review the relevant portion of the engagement to determine if the incident of non-compliance was isolated?