CASE #1

Engagement Reviews – Analytical Procedures

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
You are a review captain performing several engagement reviews that are due on June 30th. Each reviewed firm performed a review engagement in accordance with AR-C section 90, Review of Financial Statements. When reviewing the documentation related to the firm’s analytical procedures, you noted the following:

1. Firm A: The firm’s working papers included a memo that indicated analytical procedures had been performed with no issues identified. The working papers did not make any other references to the analytical procedures performed.

2. Firm B: The firm’s working papers included a comparison of current year financial statement balances to that of the prior year. The firm had documented that based on their knowledge of the client, documented at WP 4515, they didn’t expect major fluctuations in financial statement balances year over year and that any change greater than $10,000 or 10% of the prior year balance would be investigated. For any fluctuation that met these criteria, the firm documented the basis for the change based on the client’s responses to the firm’s inquiries as well as their conclusion as to the reasonableness of that response.

3. Firm C: The firm’s working papers included a comparison of current year financial statement balances to that of the prior year. The working papers included explanations for the fluctuations of several financial statement balances but did not include any documentation as to why certain financial statement balances had explanations and others did not. The firm also did not include any other documentation related to their expectations for their analytical procedures.

Question 1
For Firm A, is a deficiency appropriate? If not, is an FFC appropriate?

Solution 1
In this case, the review captain should issue, at a minimum, a deficiency as the review engagement is non-conforming.

AR-C 90.94 states that “[t]he accountant should prepare review documentation that is sufficient to enable an experienced accountant, having no previous connection to the review, to understand

a. the nature, timing, and extent of the review procedures performed to comply with SSARSs;

b. the results of the review procedures performed and the review evidence obtained; and
c. significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions."

In this case, the firm did not comply with these requirements as, among other things, it did not provide any documentation regarding the nature, timing or extent of the procedures performed or the review evidence obtained.

Appendix E of PRP Section 6200 states that "for review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures" would generally result in a deficiency or a significant deficiency.

**Question 2**
For Firm B, is a deficiency appropriate? If not, is an FFC appropriate?

**Solution 2**
In this case, the review captain should not issue a deficiency or an FFC as the review engagement appears to conform to the relevant professional standards in all material respects, based on the facts presented.

According to AR-C 90.19 states “[t]he accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Such analytical procedures should include the following: (Ref: par. .A36–.A38)

a. Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity’s business and specific transactions
b. Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. .A39)
c. Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant’s understanding of the entity and the industry in which the entity operates (Ref: par. .A40)
d. Comparing disaggregated revenue data, as applicable (Ref: par. .A41)"

In this case, based on the limited information provided, there is nothing to suggest the firm did not comply with the relevant professional standards.

**Question 3**
For Firm C, is a deficiency appropriate? If not, is an FFC appropriate?

**Solution 3**
In this case, the review captain should issue a deficiency as the review engagement does not appear to conform to the relevant professional standards in all material respects, based on the facts presented.

According to AR-C 90.19 states “[t]he accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material
misstatement. Such analytical procedures should include the following: (Ref: par. .A36–.A38)

a. Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity’s business and specific transactions
b. Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. .A39)
c. Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant's understanding of the entity and the industry in which the entity operates (Ref: par. .A40)
d. Comparing disaggregated revenue data, as applicable (Ref: par. .A41)"

In this case, based on the limited information provided, there is nothing to suggest the firm compared recorded amounts to developed expectations.

An accountant could not have appropriately applied AR-C sec. 90, if they did not develop an expectation, as it is an integral part of the performance of any analytical procedure.

As stated previously, Appendix E of PRP Section 6200 states that “for review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures” would generally result in a deficiency or a significant deficiency.
CASE #2

Engagement Reviews – Documentation

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 reviewed firm, Stanley & Company (Stanley) performs a review engagement of Goldie Manufacturing (Goldie). Robert Stanley is the partner on the engagement. Net assets at Goldie were $450,000 for the year ended December 31, 2018. Additionally, revenues were $1,200,000. During the year, one of Goldie’s major customers declared bankruptcy. At the time of the bankruptcy, this client owed Goldie $250,000 for purchases made. Goldie recorded an allowance for doubtful accounts of $150,000 for this account receivable.

In its working papers, Stanley included analytical procedures, in which the expectations were based on prior year balances. There were offsetting increases in accounts receivable which resulted in a relatively small decrease in the accounts receivable balance. Because the net effect was not significant, there was no documentation in the working papers related to the allowance.

James Husky of Husky & Associates was hired to perform the engagement review of Stanley. Mr. Husky reviewed the Goldie engagement and asked why an explanation was not documented for the bad debt expense resulting from or change in recording the allowance for doubtful accounts.

Question 1a
In response, Mr. Stanley noted that Mr. Husky had not previously asked about the bad debt expense or allowance and wasn’t sure what it was for. Would this represent a “no” answer on the review engagement checklist (PRP 23,300, an excerpt of which is provided below)? If so, which questions should be marked “no”?

Solution 1a
Yes, this represents a situation in which Stanley should have been aware of the significant transaction. Mr. Husky could mark the following questions as “no.”

B. 1. Did the accountant inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about [AR-C sec. 90.22]

C. 1. Did the accountant apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement? [AR-C sec. 90.19]

D. 1. Did the accountant consider whether, during the performance of review procedures, there was evidence or information which indicated that there may be an uncertainty about the entity’s ability to continue as a going concern for a reasonable
period of time? If after considering the evidence or information the accountant believes that there is an uncertainty about the entity’s ability to continue as a going concern for a reasonable period of time, did the accountant request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure? After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, did the accountant consider the reasonableness of management’s conclusions, including the adequacy of the related disclosure? [AR-C sec. 90.65–.68]

**Question 1b**
Would this engagement be considered compliant with applicable professional standards in all material respects?

**Solution 1b**
No, Mr. Husky should deem this engagement nonconforming and elevate the matter to a deficiency or significant deficiency, depending on the whether the issue was present in other engagements reviewed. *Section 6200, Appendix E, Areas of Common Noncompliance With Applicable Professional Standards, includes the following point in the “List 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.

**Question 2a**
In response to Mr. Husky’s question about the bad debt expense, Mr. Stanley noted that he had discussed the transaction recorded with Goldie’s management but failed to document the discussion in the working papers. Mr. Stanley also indicated that he considered whether the loss of the client represented a situation that would bring into question the client’s ability to continue as a going concern. Because of a newly acquired client, which was purchasing similar amounts as the bankrupt client, the firm determined that further analysis was not necessary. Once again, this was not evident in the working papers. Would this represent a “no” answer on the review engagement checklist (PRP 23,300)? If so, which questions should be marked “no”?

**Solution 2a**
Yes, this represents a situation in which Stanley should have documented his discussions with the client. Mr. Husky could mark the following questions as “no.”

*D. 1. Did the accountant consider whether, during the performance of review procedures, there was evidence or information which indicated that there may be an uncertainty about the entity’s ability to continue as a going concern for a reasonable period of time? If after considering the evidence or information the accountant believes that there is an uncertainty about the entity’s ability to continue as a going concern for a reasonable period of time, did the accountant request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure? After management communicates to the accountant the results of its consideration of the possible effects on the financial statements, did the accountant consider the reasonableness of management’s conclusions, including the adequacy of the related disclosure? [AR-C sec. 90.65–.68]*
G. 1. Is the accountant’s engagement documentation sufficient to enable an experienced accountant, having no previous connection to the review, to understand the nature, timing, and extent of the review procedures performed to comply with Statement on Standards for Accounting and Review Services (SSARS); the results of the review procedures performed and the review evidence obtained; and significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions? [AR-C sec. 90.91]

**Question 2b**
Would this engagement be considered compliant with applicable professional standards in all material respects?

**Solution 2b**
No, Mr. Husky should deem this engagement nonconforming and elevate the matter to a deficiency or significant deficiency, depending on the whether the issue was present in other engagements reviewed. Section 6200, Appendix E, Areas of Common Noncompliance With Applicable Professional Standards, includes the following point in the “List 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.
- For review engagements, failure to document the matters covered in the accountant’s inquiry and analytical procedures.
- For review engagements, failure to document significant unusual matters and their disposition.
II. ACCOUNTANT’S REVIEW PROCEDURES

A. Performing a Review Engagement:

1. Based on inquiry of the accountant or review of engagement files, if any, did it appear that the accountant possessed or obtained an understanding of the industry in which the entity operates, including the accounting principles and practices generally used in the industry sufficient to enable the accountant to review financial statements that are appropriate for an entity operating in that industry? [AR-C sec. 90.14]

2. Based on inquiry of the accountant or review of engagement files, did the accountant communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement all matters concerning the review engagement that, in the accountant’s professional judgment, are of significant importance to merit the attention of management or those charged with governance, as appropriate? [AR-C sec. 90.13]

3. Based on inquiry of the accountant or review of the engagement files, if any, did it appear that the accountant obtained knowledge about the entity including an understanding of (a) the entity’s business and (b) the accounting principles and practices used by the entity sufficient to identify areas in the financial statements where there is a greater likelihood that material misstatements may arise and to be able to design procedures to address those areas? [AR-C sec. 90.15]

4. If, during the performance of review procedures, the accountant became aware that information that came to the accountant’s attention was incorrect, incomplete, or otherwise unsatisfactory, did the accountant [AR-C sec. 90.29–.30]
   - Request that management consider the effects of these matters on the financial statements and communicate the results of its consideration to the accountant?
   - Consider the results communicated to the accountant by management and whether such results indicate that the financial statements may be materially misstated?
   - Perform additional procedures as deemed necessary to obtain limited assurance that there were no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework, if the accountant believed that the financial statements may be materially misstated?

5. Did the accountant obtain evidence that the financial statements agree or reconcile with the accounting records? [AR-C sec. 90.26]

6. Did the accountant accumulate misstatements, including inadequate disclosure, identified during the performance of the review or brought to the accountant’s attention during the review? Did the accountant evaluate, individually or in the aggregate, misstatements, including inadequate disclosure, to determine whether material modification should be made to the financial statements for them to be in accordance with the applicable financial reporting framework? [AR-C sec. 90.27–.28]
B. Inquiries of Members of Management and Other Review Procedures:

1. Did the accountant inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about [AR-C sec. 90.22]
   - Whether the financial statements have been prepared and fairly presented in accordance with the applicable financial reporting framework?
   - Unusual or complex situations that may have an effect on the financial statements?
   - Significant transactions occurring or recognized during the period, particularly those in the last several days of the period?
   - The status of uncorrected misstatements identified during the previous review?
   - Matters about which questions may have arisen in the course of applying the review procedures?
   - Events subsequent to the date of the financial statements that could have a material effect on the financial statements?
   - Their knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, or others when the fraud could have a material effect on the financial statements?
   - Whether they are aware of allegations of fraud or suspected fraud affecting the entity communicated by employees, former employees, regulators, or others?
   - Whether they have disclosed to the accountant all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements?
   - Significant journal entries and other adjustments?
   - Communications from regulatory agencies, if applicable?
   - Related parties and significant new related party transactions?
   - Any litigation, claims, and assessments that existed at the date of the balance sheet being reported on and during the period from the balance sheet date to the date of management’s response to the accountant’s inquiry?
   - Whether they believe that significant assumptions used by it in making accounting estimates are reasonable?
   - Actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements?
   - Any other matters that the accountant may consider necessary?

2. Did the accountant consider the reasonableness and consistency of management’s responses in light of the results of other review procedures and the accountant’s knowledge of the entity’s business? [AR-C sec. 90.23]

3. Did the accountant perform other adequate other review procedures such as the following:
   - Reading the financial statements to consider whether any information has come to their attention to indicate that the financial statements do not conform with the appropriate financial reporting framework [AR-C sec. 90.24]
• If other accountants have issued a report on the financial statement of significant components, such as subsidiaries and investees, obtaining and reading reports from such other accountants [AR-C sec. 90.25]

C. Performing Analytical Procedures:
   1. Did the accountant apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement? [AR-C sec. 90.19] The procedures should include
      • Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity’s business and specific transactions.
      • Comparing recorded amounts, or ratios developed from recorded amounts, to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant’s understanding of the entity and the industry in which the entity operates.
      • Considering plausible relationships among both financial and, when relevant, nonfinancial information.
      • Comparing disaggregated revenue data, as applicable.
   2. When designing and performing analytical procedures, did the accountant perform following steps: [AR-C sec. 90.20–.21]
      • Determine the suitability of particular analytical procedures
      • Consider the reliability of data from which the accountant’s expectation of recorded amounts or ratios is developed, taking into account the source, comparability, and nature and relevance of information available
      • Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to provide the accountant with limited assurance that a misstatement will be identified that, either individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated
      • Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation and compare the recorded amounts, or ratios developed from recorded amounts, with the expectations
      • Inquire of management or perform other review procedures when the accountant identifies fluctuations or relationships are inconsistent with other information or differ from expected values by a significant amount as a result of the analytical procedures performed

D. Entity’s Ability to Continue as a Going Concern:
   1. Did the accountant consider whether, during the performance of review procedures, there was evidence or information which indicated that there may be an uncertainty about the entity’s ability to continue as a going concern for a reasonable period of time? If after considering the evidence or information the accountant believes that there is an uncertainty about the entity’s ability to continue as a going concern for a reasonable period of time, did the accountant request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure? After management communicates to the accountant the results of its
consideration of the possible effects on the financial statements, did the accountant consider the reasonableness of management’s conclusions, including the adequacy of the related disclosure? [AR-C sec. 90.65–.68]

E. Subsequent Events and Subsequent Discovery of Facts:

1. When evidence or information that subsequent events that require adjustment of, or disclosures in, the financial statements comes to the accountant’s attention, did the accountant request that management consider whether each such event is appropriately reflected in the financial statements in accordance with the applicable financial reporting framework? [AR-C sec. 90.69–.70]

2. If a subsequently discovered fact becomes known to the accountant before the report release date, did the accountant (a) discuss the matter with management and, when appropriate, those charged with governance and (b) determine whether the financial statements need revision and, if so, inquire how management intends to address the matter in the financial statements? [AR-C sec. 90.71]

3. If management revises the financial statements for a subsequently discovered fact, did the accountant perform the review procedures necessary in the circumstances on the revision? [AR-C sec. 90.72]

G. Documentation:

1. Is the accountant’s engagement documentation sufficient to enable an experienced accountant, having no previous connection to the review, to understand the nature, timing, and extent of the review procedures performed to comply with Statement on Standards for Accounting and Review Services (SSARS); the results of the review procedures performed and the review evidence obtained; and significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions? [AR-C sec. 90.91] In addition, the documentation should include the following: [AR-C sec. 90.92]

   • The engagement letter or other suitable form of written agreement with management
   • Communications with management regarding the accountant’s expectation to include an other-matter paragraph in the accountant’s review report
   • Communications with other accountants that have audited or reviewed the financial statements of significant components
   • Communications with management and others regarding fraud or noncompliance with laws and regulations
   • The representation letter
   • A copy of the reviewed financial statements and the accountant’s review report thereon
CASE #3

Engagement Reviews – Report Acceptance Considerations

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
Firm A&B’s peer review was completed by the review captain of Firm Y&Z for the year ended March 31, 2019, with the following engagements appropriately selected for review:

<table>
<thead>
<tr>
<th>Population</th>
<th>Partner</th>
<th>Engagement Type</th>
<th>MFC/FFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>A</td>
<td>Reviews (SSARS)</td>
<td>FFC1</td>
</tr>
<tr>
<td>9</td>
<td>A</td>
<td>Compilations with disclosures (SSARS)</td>
<td>MFC1, MFC2</td>
</tr>
<tr>
<td>10</td>
<td>B</td>
<td>Compilations omit disclosures (SSARS)</td>
<td></td>
</tr>
</tbody>
</table>

The firm’s previous peer review was a pass report with no FFCs. The review captain did not identify any nonconforming engagements in the review summary, and drafted a pass report for the current review, issuing two MFCs and one FFC.

- MFC1 – The financial statements did not disclose its accounting policy associated with advertising costs.
- MFC2 – The firm did not obtain an engagement letter outlining services to be performed.
- FFC1 – The firm did not adequately document analytical and inquiry procedures related to changes in service revenue.

The firm’s response on each MFC and FFC stated:

“A&B agrees with the reviewer’s conclusion and will take greater care on future engagements to ensure compliance.”

Question 1
Considering the fact pattern outlined in Scenario A and drawing from your own experience in the report acceptance process, what questions may result from a technical reviewer or RAB related to the submitted peer review documentation? Due to limited information in the fact pattern, certain assumptions may be required.

Solution 1
Note for discussion leaders: There is no right or wrong answer, as this scenario is designed to simulate the uncertainty that RAB members may experience when evaluating peer review documentation with limited or conflicting information, especially related to areas involving application of reviewer judgment and conclusions about whether an engagement should be considered non-conforming.
Reviewers are reminded to leverage their experience from questions, comments or reviewer performance feedback on previous reviews. Anticipating questions that may arise from technical review or the RAB helps to increase efficiency and effectiveness of the acceptance process; which also helps to avoid reviewer performance feedback.

Based on the fact pattern above, the technical reviewer or RAB may have follow-up questions or comments such as:
- Should the issue noted in MFC2 be elevated to an FFC or deficiency?
- Should FFC1 be elevated to a deficiency?
- If the firm failed to document its inquiry and analytical procedures, how is the review engagement considered conforming?
- Should the report rating change to pass with deficiencies?
- Is the firm’s comment on the MFCs and FFC sufficiently responsive, if not what should have been included in the response?
- The MFCs should be revised to remove mention of the firm’s name in its response.

**Note the following EXCERPTS from PRP Section 6200, Appendix E:**

- List of Matters and Findings That Generally Would Not Result in a Deficiency – Presentation and Disclosure:
  - Failure to disclose the accounting policy related to advertising costs in the notes to the financial statements.

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

**Question 2**
When evaluating a review for acceptance, is a RAB allowed to request engagement checklists or peer review documentation other than the required document submissions?

**Solution 2**
Yes. The RAB may request all review documentation from the review captain not previously provided, including engagement checklists and any other relevant documents. For committee-appointed review team (CART) peer reviews, the technical reviewer will ordinarily review all other working papers prepared by the review captain.

**Per Chapter 3, Section IV of PRP Section 3300 (RAB Handbook):**
“...The RAB is authorized to make whatever inquiries or initiate whatever actions of the reviewed firm or the review team it considers necessary in the circumstances, including but not limited to, requesting expansion of scope, revisions to the report or the reviewed firm’s response thereto, or corrections or clarifications to other review documents. This RAB authority exists at all times even if these inquiries were not made or actions were not requested during already completed on-site oversight or other stages of the review. However, such inquiries or actions by the RAB should be made with the understanding that the program is intended to be positive and remedial in nature and is based on mutual trust and cooperation.”
In some circumstances, the RAB may consider requesting all review documentation from the team captain or review captain not previously provided, including engagement checklists, quality control questionnaires and related practice aids, staff interview or focus group checklists, and any other relevant documents.

**Per Chapter 2, Section V of PRP Section 3300 (RAB Handbook):**
For Engagement Reviews, the technical reviewer will ordinarily review the following documents:

1. Peer review report
2. Letter of response, if applicable
3. Prior review report; letter of response and FFCs, if applicable; firm representation letter and committee decision letters
4. Firm representation letter
5. Review Captain Summary
6. DMFC form, as applicable
7. MFC and FFC forms, as applicable
8. Engagement Summary Form
9. Oversight report, as applicable

For committee-appointed review team (CART) peer reviews, in addition to the previously mentioned, the technical reviewer will ordinarily review all other working papers prepared by the review captain.
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
Firm A has been engaged to perform a review of the financial statements of Company XYZ in accordance with SSARSs. Firm A will prepare, under SSARSs and as a non-attest service, the financial statements and related notes subject to the review engagement.

Firm A obtained an engagement letter, signed by management of Company XYZ, which outlined the following terms of the review engagement:

- The objectives of the engagement,
- The responsibilities of the accountant,
- The limitations of a review engagement,
- Identification of the applicable financial reporting framework for the preparation of the financial statements, and
- The expected form and content of the accountant's review report and a statement that there may be circumstances in which the report may differ from its expected form and content.

Question 1
You are the Review Captain on Firm A’s peer review and have selected this review engagement. When completing your engagement review checklist, how do you respond to the following question?

“Did the accountant obtain an engagement letter or other suitable form of written agreement with management or those charged with governance that documented the agreed-upon terms of the engagement? Was the engagement letter or other suitable form of written agreement signed by (a) the accountant or the accountant’s firm and (b) management or those charged with governance, as appropriate? Did the accountant ensure that the written agreement between the parties included all required items?”

Solution 1
The correct response to this question would be a “no” answer because the engagement letter, while appropriately signed by both Firm A and the management of Company XYZ, failed to include the responsibilities of management.

AR-C 60, paragraph .26c
As a precondition for accepting an engagement to be performed in accordance with SSARSs, the accountant should... obtain the agreement of management that it acknowledges and understands its responsibility

1. for the selection of the financial reporting framework to be applied in the preparation of financial statements.
2. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, unless the accountant decides to accept responsibility for such internal control.

3. for preventing and detecting fraud.

4. for ensuring that the entity complies with laws and regulations applicable to its activities.

5. for the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements.

6. to provide the accountant with
   a. access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
   b. additional information that the accountant may request from management for the purpose of the engagement.
   c. unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.

AR-C 90, paragraph .09
As a condition for accepting an engagement to review an entity's financial statements, in addition to the requirements in paragraph .26 of section 60, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility

1. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and the inclusion of all informative disclosures that are appropriate for the applicable financial reporting framework used to prepare the entity's financial statements. If the financial statements are prepared in accordance with a special purpose framework, this includes
   a. a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effect of which need not be quantified, and informative disclosures similar to those required by GAAP in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP,
   b. a description of any significant interpretations of the contract on which the special purpose financial statements are prepared in the case of financial statements prepared in accordance with a contractual-basis of accounting, and
   c. additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.

2. to provide the accountant, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

3. to include the accountant's review report in any document containing financial statements that indicates that such financial statements have been reviewed by the entity's accountant unless a different understanding is reached.

**Question 2**
What would be the impact of this answer on the peer review?
**Solution 2**

Peer Review Program Manual 6200E, *Areas of Common Non-Compliance with Applicable Professional Standards*, may be helpful to the peer reviewer in deciding if the non-compliance is a matter, finding, deficiency, or significant deficiency. In this case, PRPM 6200E lists “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. 19, “Framework for Performing and Reporting on Compilation and Review Engagements” (AICPA, *Professional Standards*, AR sec. 60), or, when applicable, 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)” as a matter that generally would NOT result in a deficiency.

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. 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, related accountant’s reports, and adequacy of procedures performed, including related documentation. Matters are typically one or more “No” answers to questions in peer review questionnaire(s). 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.

It is important to consider the specific facts and circumstances when determining the relative importance of items noted during the peer review. For example, if this scenario also stated that Firm A did not obtain a management representation letter from Company XYZ, it likely would change your answer to this question.

**SCENARIO B**

Firm A has been engaged to perform a review of the financial statements of Company XYZ in accordance with SSARSs. Firm A will prepare, under SSARSs and as a non-attest service, the financial statements and related notes subject to the review engagement. Additionally, Firm A will perform account reconciliation procedures for Company XYZ and prepare the Company’s tax return.

**Question 1**

Given these additional non-attest services provided by Firm A, would the Firm’s independence be impaired?

**Solution 1**

When an attest client asks a firm to perform multiple non-attest services, that firm should reassess it’s independence based on the cumulative effect of providing the services.

Although individually the non-attest services may not impair independence, the firm should evaluate the threats in the aggregate to ensure that the safeguards provided for
in the “General Requirements for Performing Non-Attest Services” interpretation [ET sec. 1.295.040] continue to adequately reduce threats such as self-review and management participation to an acceptable level. However, performing multiple non-attest services can increase the significance of these threats as well as other threats to independence.

If the “General Requirements” safeguards do not reduce threats to an acceptable level, you should determine whether additional safeguards can be applied to reduce threats to an acceptable level or whether threats are so significant that you should not perform the additional non-attest service.

1.295.040 General Requirements for Performing Non-attest Services
.01 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 safeguards 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.

   c. Before performing non-attest services the member establishes and documents in writing his or her understanding with the attest client (board of directors, audit committee, or management, as appropriate in the circumstances) regarding
      i. objectives of the engagement,
      ii. services to be performed,
      iii. attest client’s acceptance of its responsibilities,
      iv. member’s responsibilities, and
      v. any limitations of the engagement.
SCENARIO C
The AICPA’s Code of Professional Conduct states that, in order for a member to maintain its independence when providing non-attest services, the attest client and its management must agree to oversee the service(s) 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. [ET 1.295.040]

Question 1
Discuss best practices for evaluating skill, knowledge, and/or experience. If your client does not have documentation of their evaluation of these areas, how does that impact a peer review? How do you come to the conclusion that the client has considered SKE if they have not documented it?

Solution 1
Note this question is for discussion purposes; there is no proposed solution included. Please refer to the consideration items below for discussion points.
- Does the responsible party hold a CPA license or other credential in the related area?
- Has the responsible party taken CPE courses specific to the related area?
- What is the responsible party’s tenure with this task, and have there been any prior audit finding in the related area?
- Documentation of SKE is not required by SSARS but is considered a best practice.
CASE #5

Engagement Reviews – Appropriateness of Firm Responses

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

Estimated Time to Complete: 15 Minutes

SCENARIO A
Coby Black, the review captain, is performing the peer review of Little & White, LLP (the firm). During the peer review, Mr. Black noted that in the review engagement reviewed, the firm failed to document the results of its analytical procedures. As such, Mr. Black concluded this engagement was non-conforming and included this as a deficiency in the peer review report. The other engagement reviewed was not considered non-conforming.

Question 1
In its letter of response to the peer review report, what is the firm required to include?

Solution 1
According to Standards paragraph .125, it is the firm’s responsibility to identify the appropriate remediation of deficiencies and to appropriately respond. In its letter of response, the firm should address the firm’s actions taken or planned to remediate deficiencies including timing of the remediation and additional procedures to ensure the deficiency is not repeated in the future. The action(s) should be feasible, genuine, and comprehensive addressing each of the requirements outlined in paragraph .125.

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

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

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

Question 2
Once the firm has provided its response to the review captain, what is he then required to do with it?
Solution 2
According to Standards paragraph .126, the review captain should review and evaluate the firm’s responses in the draft letter of response prior to the exit conference. The appropriateness of the letter of response should be discussed during the exit conference.

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

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

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

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

SCENARIO B
Assume the firm’s letter of response (LOR) broadly states: “We’ll address this issue next year” without further explanation in the LOR.

Question 1
Is this response appropriate?

Solution 1
No. Peer review guidance states that firms should be discouraged from defaulting to a response of “we’ll fix it on the next engagement” without thought behind that response. It may be appropriate, but firms should also articulate why it is the appropriate response.

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

Question 2
Should the review captain instruct the reviewed firm to perform any omitted procedures in this instance?

Solution 2
No. While review captains should request a revised response if the firm’s response is not deemed to be comprehensive, genuine and feasible (as the technical reviewer or RAB will ultimately request a revised response in these situations), reviewers should not
instruct firms to perform omitted procedures, reissue accounting reports or have previously issued financial statements revised and reissued (as these are decisions for the firm and its client to make). That said, administering entities can require the firms to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review.

The firm’s response may affect other monitoring actions the administering entity’s peer review committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.
CASE #6
Engagement Reviews – Documenting Conclusions Reached

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

Estimated Time to Complete: 15 Minutes

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

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

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

Other exit conference agenda items:
- A Statement of Cash Flows was not presented for each period.
- Minor formatting issues on both engagements may be avoided by using standardized financial statement templates.
- Documentation has room for improvement on both engagements.

Question 1
Where should the review captain document the disposition of the MFCs? What should be included?

Solution 1
The trail of disposition for MFCs should be documented on a DMFC form for the peer reviewer, administering entity, and individuals conducting technical review or oversight to follow whether the issues were cleared, discussed with the firm during the exit conference, noted as a finding on an FFC form, or noted as a deficiency/significant deficiency in the peer review report.

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

Per PRP Section 1000, Paragraph .74:
“In order to document the disposition of all the MFCs, the team captain completes a DMFC form. The DMFC form is part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each as to whether it was cleared, discussed with the firm during the closing meeting or exit conference (see paragraphs .91 and .92), included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of pass with deficiencies or as a significant deficiency in a report with a peer review rating of fail.”

**Question 2**
Considering the facts noted Scenario A, do you agree with the disposition of the MFCs and exit conference items? Discuss any judgment used to reach your conclusion.

**Solution 2**

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

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

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

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

Per PRP Section 1000, Paragraph .110:

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

**Question 3**

While discussing the MFCs and exit conference agenda items with Firm A, it became apparent they were unaware of the departures from GAAP even though they stated the departures were immaterial. What should the review captain consider in light of multiple immaterial departures from GAAP?

**Solution 3**

The review captain needs to use professional judgment in determining whether collectively the “in all material respects” threshold has not been met. A finding should be issued in connection with an Engagement Review when the review captain concludes that financial statements or information, the related accountant’s reports submitted for review, or the procedures performed, including related documentation, were not performed or reported on in conformity with the requirements of applicable professional standards.
Per Supplemental Guidance in PRP Section 3100 – Engagement Reviews - Considerations When There Are Several Departures from GAAP That are Immaterial:

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

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

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

Thus, although the objective of an Engagement Review, and the report, discuss “in all material respects,” the definition of a finding leaves room for immaterial departures to be included in a finding. Professional judgment should be used when making this determination, and whereas in this example it might not be inappropriate to elevate the matter(s) to a finding due to the number of matters noted on one engagement, a different conclusion may be reached if three engagements were reviewed and each one had a single immaterial departure that ordinarily would not be included in the finding.
CASE # 7

Engagement Reviews – Selecting Engagements

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

Estimated Time to Complete: 10 Minutes

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

The Engagement Summary Form reflects the following information:

<table>
<thead>
<tr>
<th></th>
<th>Responsible party 1</th>
<th>Responsible party 2</th>
<th>Responsible party 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviews (SSARS)</td>
<td>4</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Compilations (with disclosures)</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Compilations (w/o disclosures)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Preparations (with disclosures)</td>
<td>1</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Preparations (w/o disclosures)</td>
<td>-</td>
<td>12</td>
<td>-</td>
</tr>
</tbody>
</table>

Question 1
What is an appropriate engagement selection?

Solution 1
There are a few combinations that would be considered appropriate. One possible solution would be to select the following engagements:

1. Two review engagements (one from each: responsible party 1 and responsible party 3)
2. One compilation with disclosures engagement (responsible party 2)
3. One preparation without disclosures engagement (responsible party 2)

Applicable guidance follows and includes bold/italicized text to assist in illustrating how the various requirements are met in this scenario.

Paragraph .104 of the Peer Review Standards 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) *In this scenario, this is covered by selecting a review performed by responsible party 3.*
   2. Compilation of historical financial statements, with disclosures (performed under SSARS) *In this scenario, this is covered by selecting a compilation performed by responsible party 2.*
   3. Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS) *In this scenario, the firm does not perform any such engagements.*
   4. Engagements performed under the SSAEs other than examinations *In this scenario, the firm does not perform any such engagements.*

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. *In this scenario, an engagement has been selected for each Responsible Party.*

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. *In this scenario, a preparation with disclosures is not required to be selected as the two responsible parties performing these engagements also perform reviews (which contain disclosures).*
   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. *In this scenario, one preparation that omits disclosures would be
selected because the firm does not perform any other engagements that omit disclosures.

3. One preparation engagement should be selected if needed to meet the requirement in item d. In this scenario, more than 2 engagements have been selected, and therefore item d. has been fulfilled.

d. Ordinarily, at least two engagements should be selected for review. In this scenario, more than 2 engagements have been selected, thus fulfilling this requirement.

Paragraph .105 of the Peer Review Standards notes:

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

Interpretation 104-4 adds that:

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

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

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

Example 3. If a sole practitioner only performs compilation engagements that omit substantially all disclosures and preparation engagements with disclosures (and no other engagements under the SSAEs or SSARSs), then one of each type of engagement should be selected as part of the peer review because a full disclosure engagement should be selected.

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

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

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

**Question 2**
Based on discussions with the firm, the Review Captain learned that the compilation with disclosures performed by responsible party 2 is not performed annually, but rather it is performed monthly for one client. Has the firm properly completed the Engagement Summary Form?

**Solution 2**
No. Each set of financial statements issued during the peer review year is counted as one engagement; therefore, one client for which a firm prepares monthly financial statements will count as 12 engagements. Footnote 3 in Appendix A, “Engagement Summary Form,” to PRP Section 6100, “Instructions to Firms Having an Engagement Review,” states: “Each monthly compilation engagement or monthly preparation engagement counts as one engagement.”

**Question 3**
Considering the response to Question 2, would changing the compilation with disclosures performed by responsible party 2 from 1 to 12 change the engagement selection?

**Solution 3**
No. One compilation with disclosures performed by responsible party 2 would still be selected.
**SCENARIO B**
You are the Review Captain performing an engagement review for a sole practitioner. For their one client, the firm creates 12 monthly computer-generated compilations of financial statements that omit substantially all disclosures.

**Question 1**
What is an appropriate engagement selection, and are there any special considerations that should be made?

**Solution 1**
Assuming all 12 monthly compilations are for the same client and prepared on the same basis of accounting, then one compilation engagement that omits substantially all disclosures should be selected. The Review Captain should consult with the administering entity before he or she concludes that this one engagement is sufficient.

If the year end compilation is created on a different basis of accounting than the interim compilations, then it would be appropriate to select the year end compilation and one of the other monthly compilations.

Appendix A of PRPM section 6200 states: *The criteria for selection of engagements require that, ordinarily, a minimum of two engagements be selected for review. However, if the reviewer is satisfied that one engagement is representative of the firm’s complete practice, the reviewer may conclude it is unnecessary to review more than one engagement. However, the reviewer should consult with the administering entity before he or she concludes that one engagement is sufficient.*
CASE #8

Engagement Reviews – Peer Review Reports

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: 5 Minutes

SCENARIO A
You are the Technical Reviewer for the engagement review of Brind'Amour and Associates, a sole practitioner. After consulting with the administering entity on the facts and circumstances related to this review, the Review Captain, also a sole practitioner, appropriately selected only one engagement for this review.

Question 1
The following report has been submitted to the administering entity. When performing your technical review, what are some issues you might identify?


September 30, 2019

To the Partners of Brind'Amour and Associates and the Peer Review Committee of the XYZ administering entity

We have reviewed selected accounting engagements of Brind'Amour and Associates (the firm) issued with periods ending during the year ended June 30, 2019. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review as described in the Standards may be found at www.aicpa.org/prsummary.

Firm’s Responsibility
The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility
Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.
An Engagement Review does not include reviewing the firm’s system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

**Conclusion**
Based on our review, nothing came to our attention that caused us to believe that the engagements submitted for review by Brind’Amour and Associates issued with periods ending during the year ended June 30, 2019, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Brind’Amour and Associates has received a peer review rating of *pass*.

Firm ABC

**Solution 1**
Ensure the following items are noted by participants; refer to Appendix M of PRPM section 1000 for guidance. A revised report is included below for reference.

1. The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm’s Conformity With Professional Standards on an Engagement Reviewed.”
2. The singular *I, me, and my* are appropriate if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

**Report on the Firm’s Conformity With Professional Standards on an Engagements Reviewed**

September 30, 2019

To the Partners of Brind’Amour and Associates and the Peer Review Committee of the XYZ administering entity

*I We* have reviewed selected *an* accounting engagements of Brind’Amour and Associates (the firm) issued with *a* periods ending during the year ended June 30, 2019. *My Our* peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review as described in the Standards may be found at www.aicpa.org/prsummary.

**Firm’s Responsibility**
The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

**Peer Reviewer’s Responsibility**
My Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

Conclusion
Based on my our review, nothing came to my our attention that caused me us to believe that the engagements submitted for review by Brind’Amour and Associates issued with a period ending during the year ended June 30, 2019, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. Brind’Amour and Associates has received a peer review rating of pass.

Firm ABC
CASE #9

Engagement Reviews – Reviewing Firm Responses to Matters and Findings

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
A review captain issued a matter and a finding related to a review engagement as certain items on the statement of cash flows were misclassified, but the misclassification was not determined to be material. No other instances of non-compliance were noted by the review captain.

After the closing meeting, the firm provided a response to the finding as follows:

- Matter: We agree to this matter.
- Finding: We will fix this going forward.

Question 1
What is the firm required to include in its response to the matter and finding?

Solution 1
In its response to the matter, the reviewed firm should comment on the circumstances and relative importance of the identified issue. The reviewed firm should be reminded to include comments beyond “yes” or “no” to indicate their agreement with the matter. Additionally, due to the aggregation of anonymized information collected on MFC forms, specific firm or client names should not be used in the reviewer’s description of, nor the firm’s response to the matter.

In its response to a finding, the reviewed firm should, according to Standards paragraph .125:

- indicate whether it agrees with the finding
- address the firm’s actions taken or planned to remediate the findings, including
  - the timing of the remediation, and
  - additional procedures to ensure the finding is not repeated in the future.

Additionally, PRP Section 6600a paragraph .01f recommends the response include the person(s) responsible for the implementation.

Per Interpretation No. 100-1, the purpose of the firm’s response on the FFC form 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.

Question 2
What are the review captain’s responsibilities once the responses have been provided?
Solution 2
Primarily, the review captain should review the response to verify that the firm has complied with the requirements and provided an appropriate response. According to Standards paragraph .126, the review captain should review and evaluate the responses on the FFC forms prior to the exit conference. The appropriateness of the firm’s response should be discussed during the exit conference.

Additionally, per Interpretation No. 99-1, while it is the reviewed firm’s ultimate responsibility, the review captain may collaborate with the firm to determine an appropriate response.

If the review captain determines that the firm’s response is not appropriate, he or she should request the firm provide a revised response, as the technical reviewer or RAB will request a revised response if it is not deemed to be comprehensive, genuine, and feasible.

Question 3
Based on those requirements discussed in Question 1, is the firm’s response to the finding appropriate?

Solution 3
No. The firm’s response does not address the required elements as stated in the solution to Question 1.

Specifically:
- The firm is not specific as to what actions have been taken or will be taken to remediate the finding, including the related timing, and
- The firm does not provide any additional procedures to ensure the finding will not be repeated in the future.

As noted in Interpretation 100-1: In general, firms should be able to articulate their consideration of the professional standards and why the actions taken or planned are appropriate. 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.

Question 4
What suggestions, if any, would you provide to the firm to improve its responses?

Solution 4
Discussion leaders should encourage attendees at their table to describe any best practices they may have related to obtaining genuine, comprehensive and feasible responses from the firm. Additionally, attendees should share any specific actions they encourage firms to take to help the firms from repeating their mistakes on future engagements.

As a reminder, although it is ultimately the firm’s responsibility, the review captain may collaborate with the firm to determine an appropriate response. The actions described in the response should be feasible, genuine, and comprehensive. Also keep in mind that if the firm’s response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.
CASE #10

This case has intentionally been omitted.
CASE #11

Engagement Reviews – Evaluating and Elevating “No” Answers

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
For a sole proprietorship, a review captain selected one review engagement for a NFP and one compilation without disclosures engagement for a construction contractor. The following issues were identified during the review:

<table>
<thead>
<tr>
<th>Issue#</th>
<th>Checklist</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>23,300 – R211</td>
<td>Review</td>
<td>Documentation did not support the basis for not performing analytical procedures over certain expenses, which were determined to be immaterial to the financial statements as a whole, and were otherwise not considered to be misleading.</td>
</tr>
<tr>
<td>2</td>
<td>23,300 – R225</td>
<td>Review</td>
<td>Management representation letter was not dated the same as the accountant’s report.</td>
</tr>
<tr>
<td>3</td>
<td>23,200 – C301</td>
<td>Compilation</td>
<td>Financial statements do not include indication of being prepared on a contractual basis (a special purpose framework).</td>
</tr>
</tbody>
</table>

Question 1
Which of the identified issues, if any, should be communicated to the firm on an MFC form? What should a team captain consider when determining whether to elevate such matters to a finding, deficiency, or significant deficiency?

Solution 1
Due to the immaterial nature of Issue 1, it does not need to be communicated to the firm on an MFC form. Issues 2 and 3 should be elevated to an MFC, at a minimum, as these ‘No’ answers indicate noncompliance with applicable professional standards.

Remember, 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.

When determining whether to elevate the matters to a finding, deficiency, or significant deficiency, it is recommended for review captains to consult the List of Matters and Findings That Generally Would Not Result in a Deficiency, and the List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency in Appendix E of PRP Section 6200.
Additionally, review captains are encouraged to also consider whether the matter should require attention during the next peer review, as matters (i.e. – MFC Forms) will not be retained beyond 120 days of report acceptance.

Per paragraph .110a in PRP Section 1000:
“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.”

**Question 2**
Regarding Issue 2 related to the management representation letter, what should be considered when determining whether to elevate the matter to a finding? Should the issue be treated differently if the representation letter does not substantially meet all other requirements?

**Solution 2**
If the reviewer applies professional judgment and concludes the dating is materially different, it should be elevated to a finding. Representations should be made no earlier than the date of the accountant’s review report, and if substantially all other requirements are not met, the engagement should be deemed as not in compliance with professional standards.

Per PRP Section 3100, Supplemental Guidance - Impact on Peer Review Results and Reporting – Management Representation Letters
“…On an Engagement Review, if the dating is not materially different, it would not be required to be included in a finding, if it is materially different, it would be a finding. The reviewer should use his or her judgment in determining whether the dating is materially different.

If the management representation letter does not meet substantially all of the other requirements or the firm failed to obtain a management representation letter, the engagement should be deemed as not in compliance with professional standards.”

Per paragraph .110b in PRP Section 1000:
“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.”

**Question 3**
Regarding Issue 3, how should the review captain document the firm’s failure to indicate the financial statements were prepared on a contractual basis? What should the reviewer consider when concluding whether a deficiency or significant deficiencies exist?
**Solution 3**

When the report on financial statements of a compilation omitting substantially all disclosures fails to indicate they were prepared in accordance with a special purpose framework, the engagement is not in compliance with professional standards and the issue should be communicated to the firm in the peer review report as a deficiency. When determining whether a fail report rating is appropriate, the review captain should consider whether all other engagements were in compliance with professional standards.

The issue would be considered a significant deficiency, and a fail report should be issued, if all other engagements selected for review were deemed not in compliance with applicable professional standards.

Per PRP Section 6200 Appendix E – List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency (Reports):
“For a compilation or review engagement performed in accordance with SSARSs, failure to appropriately modify the report in accordance with professional standards, when the financial statements are prepared in accordance with a special purpose framework.”

Per paragraph .110c in PRP Section 1000:
“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.”

Per paragraph .110d in PRP Section 1000:
“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 #12**

**Engagement Reviews – Considerations from 6200E**

*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

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**BACKGROUND INFORMATION**

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; it is important to consider the specific facts and circumstances when determining the relative importance of items noted during the peer review.

Peer Review Program Manual 6200E, *Areas of Common Non-Compliance with Applicable Professional Standards*, may be useful to the peer reviewer in deciding if the non-compliance is a matter, finding, deficiency, or significant deficiency. While this is not an all-inclusive list, it may be helpful for consideration. For your reference, this section of 6200 has been included below.

**Appendix E: Areas of Common Noncompliance with Applicable Professional Standards**

**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.
- Compilation reports that failed to include the paragraph regarding the omission of supplemental information as applicable in the circumstances.
- Reports reflected financial statement titles and terminology not in accordance with professional standards.
- Failure to explain the degree of responsibility the accountant is taking with respect to supplementary information.

**Financial Statement Measurement**
- Particular types of revenues and expenses not presented and disclosed in accordance with professional standards (for example, freight revenue and related shipping and handling expenses).
- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) that are properly reported on but contain inconsistencies between the report and the financial statements, where the actual basis is readily determinable.

**Presentation and Disclosure**
- Supplementary information not clearly segregated or marked as supplementary and departures from standard report presentation with respect to supplementary information.
• Reviewed financial statement presentation inappropriate for the type of nonprofit organization being reported.

• Compiled financial statements prepared using a special purpose framework reflecting titles normally associated with financial statements prepared under GAAP when the applicable financial reporting framework is not clearly identified.

• Failure to disclose the accounting policy related to advertising costs in the notes to the financial statements.

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

• Misclassification of items on the statement of cash flows.

• 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).

• Bank overdrafts not properly presented on the balance sheet, failure to accrue income taxes where the accrual and provision are not expected to be significant to the financial statements taken as a whole and missing insignificant disclosures in the financial statements.

• Financial statement titles that were inconsistent with the accountant’s report.

• Failure to refer to the accountant’s report on each page of the financial statements or financial statements inconsistently titled with the applicable reports.

Statement on Standards for Accounting and Review Services (SSARS) Procedures (Including Documentation)

• The engagement letter on a management use only compilation engagement did not refer to supplementary information, which was presented along with the basic financial statements.

• 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. 19, “Framework for Performing and Reporting on Compilation and Review Engagements” (AICPA, Professional Standards, AR sec. 60), or, when applicable, 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).

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

• Issuance of a review report when the accountant is not independent.

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

• Failure to disclose the lack of independence in a compilation report.
• Failure to appropriately modify a report for a scope limitation or significant departure from the basis of accounting used for the financial statements.
• Failure to adopt current applicable standards or the accountant’s report does not contain the critical elements of the current applicable standards.
• 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).
• The accountant’s report does not indicate the periods covered by the report and they cannot be determined from reading the financial statements.
• Failure to include a separate paragraph for departures from the financial reporting framework, including dollar amounts or a statement that the impact was not determined.
• A compilation report that fails to include all the reasons why the accountant is not independent when such reasons are presented (for example, only provides one of three reasons).
• A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions.
• For a compilation engagement, 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.
• For a compilation or review engagement performed in accordance with SSARSs, failure to appropriately modify the report in accordance with professional standards, when the financial statements are prepared in accordance with a special purpose framework.
• For preparation engagements, failure to issue a disclaimer report, in accordance with SSARS No. 21, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided.”

Financial Statement Measurement
• Investments in marketable securities presented at cost and not fair market value, resulting in a material misstatement to the balance sheet.
• Inclusion of material balances that are not appropriate for the basis of accounting used.
• 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).
• Improper accounting of a transaction (for example, recording a capital lease as an operating lease).
• Use of inappropriate method of revenue recognition.

Presentation and Disclosure
• Disclosure of omission of substantially all disclosures (in a compilation without disclosures) in fact when substantially all disclosures have been included.
• Misclassification of transactions or balances and omission of significant required disclosures related to financial statement balances on transactions.
• Failure to disclose that compiled financial statements that omit substantially all disclosures were prepared using a special purpose framework and the basis of accounting is not readily determinable from reading the accountant's compilation report.
• For a preparation engagement, failure to include, either on the face of the financial statements or in a note to the financial statements, a description of the financial reporting framework when the financial statements have been prepared in accordance with a special purpose framework.
• For a preparation engagement, 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.
• For a preparation engagement, failure to disclose a material misstatement(s) in the financial statements when the accountant prepares financial statements that contain a known departure or departure(s) from the applicable financial reporting framework.
• Significant departures from the financial statement formats prescribed by industry accounting and audit guides.
• Omission of the disclosure(s) related to significant accounting policies applied (GAAP or special purpose framework).
• Failure to include a summary of significant assumptions in a financial forecast or projection.
• Failure to segregate the statement of cash flows into the components of operating, investing, and financing.
• Failure to disclose the cumulative effect of a change in accounting principles.
• Failure to disclose significant related party transactions.
• Omission of actual financial statement(s) that is (are) referred to in the report.
• Failure to include one or more statements of cash flows when comparative results of operations are presented in financial statements prepared in accordance with GAAP.

**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).
• Performance of a management use only compilation engagement with a period end subsequent to December 15, 2015.
• Failure to document significant findings or issues.
• For compilation engagements performed under SSARS No. 19 and all review engagements, failure to document communications to the appropriate level of management regarding fraud or illegal acts that come to the accountant’s attention.
• For review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures.
• For review engagements, failure to document the matters covered in the accountant’s inquiry and analytical procedures.
• For review engagements, failure to document significant unusual matters and their disposition.
• For review engagements, failure to obtain a client management representation letter.
• Engagement letters on management use only compilation engagements that omit the required descriptions or statements documenting the understanding with the client.
• For engagements performed in accordance with SSARS No. 21, failure to obtain all required signatures on the engagement letter (or other suitable written agreement).

**SCENARIO A**
For each question below, consider the circumstance and the impact to the peer review. Note these questions are for discussion purposes; there are no proposed solutions included, however points for consideration during discussion are listed.

**Question 1**
A review report states financial statements have been prepared on a generally accepted accounting principles (GAAP) basis, but the report titles make it clear the statements have not been prepared on a GAAP basis.

**Discussion Points**
- Participants should consider the following item listed under “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.
- Based on this information, the impact to the peer review would likely be, at a minimum, a deficiency.
- The severity of the departure would determine the level of the deficiency.

**Question 2**
During your review of the financial statements on a review engagement, you notice the current portion of long-term debt is not disclosed. After further investigation, you determine that a reader of the financial statements could be misled by this omission.

**Discussion Points**
- Participants should consider the following item listed under “List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency – Reports”: A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions.
- Participants should consider the following item listed under “List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency – Presentation and Disclosure”: Misclassification of
transactions or balances and omission of significant required disclosures related to financial statement balances on transactions.

- Based on this information, the impact to the peer review would likely be, at a minimum, a deficiency.
- The severity of the departure would determine the level of the deficiency.

**Question 3**
During your review of the financial statements on a review engagement, you notice the current portion of long-term debt is not disclosed. After further investigation, you determine that a reader of the financial statements would not be misled by this omission.

**Discussion Points**
- Participants should consider the following item listed under “List of Matters and Findings That Generally Would Not Result in a Deficiency or Significant Deficiency – Presentation and Disclosure”: 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).
- Based on this information, the impact to the peer review would likely be an MFC.

**Question 4**
During your review of the financial statements on a review engagement, you notice the current portion of long-term debt is not disclosed. Additionally, you note the A/R footnote includes a transposed number that would lead a reader to think the balance is material (the face of the financials is correct). Also, you note the depreciation footnote discloses the Company’s policy as 15-20 years when the workpapers say 5-10 years.

**Discussion Points**
- Refer to discussion points for questions 3 and 4.
- The peer review impact of the current portion of long-term debt not being disclosed would more than likely depend on whether the balance is material to the financial statements.
- The transposed number in the A/R footnote that would lead a reader to think the balance is material may be a deficiency, but you also must factor in that the balance is correct on the face of the financials.
- The financial statement impact of the depreciation footnote discrepancy would also depend on whether the item is, by itself, a deficiency.
- All of these items need to be evaluated in the aggregate to determine the peer review impact.
- Professional judgment is key.
CASE #13

Engagement Reviews – Non-Conforming Preparation Engagements

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

Estimated Time to Complete: 15 Minutes

SCENARIO A
When performing an Engagement Review, the review captain selected a preparation engagement. The financial statements did not contain a disclaimer report or a statement indicating “no assurance is provided”. Through discussion with the engagement partner, this resulted from an issue with the template used by the firm and the statement indicating “no assurance” should have been included on each page.

Question 1
Does this result in a non-conforming engagement? Why or why not?

Solution 1
Yes. Paragraph .14 of AR-C section 70 states that the accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that "no assurance is provided" on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should
a. issue either a disclaimer that makes clear that no assurance is provided on the financial statements;

b. perform a compilation engagement in accordance with section 80, Compilation Engagements; or

c. withdraw from the engagement.

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

- For preparation engagements, failure to issue a disclaimer report, in accordance with SSARS No. 21, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided.”

SCENARIO B
When performing an Engagement Review, the review captain selected a preparation engagement. The financial statements were prepared and reported on using the cash-basis, including financial statement titles that referenced cash-basis, however there was a reference to GAAP in the notes to the financial statements.

Question 1
Does this result in a non-conforming engagement? Why or why not?
**Solution 1**
No. When the basis of reporting is clear, this would not typically result in a non-conforming engagement. However, if the actual reporting basis is unclear, the reviewer may conclude the engagement was nonconforming.

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

**Financial Statement Measurement**
- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) that are properly reported on but contain inconsistencies between the report and the financial statements, where the actual basis is readily determinable.

**SCENARIO C**
The firm provided multiple services to the client, however the written understanding with management regarding such services was missing certain elements, including the objective of the engagement and the reporting framework.

**Question 1**
What impact does the preceding scenario have on the peer review?

**Solution 1**
If the firm was able to provide written evidence to support the required understanding between the firm and management, but failed to address all of the requirements per the standards, this by itself would likely not result in a non-conforming engagement.

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

**Statement on Standards for Accounting and Review Services (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. 19, “Framework for Performing and Reporting on Compilation and Review Engagements” (AICPA, Professional Standards, AR sec. 60), or, when applicable, 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).

**SCENARIO D**
PRP Section 6200, Appendix E, contains examples of issues that generally would and would not result in a deficiency or significant deficiency. Take a few moments to review the following list of examples from Appendix E of PRP Section 6200 (note that this listing is not a comprehensive listing of all items included in Appendix E). Unless otherwise stated, consider each situation separately.
1. Inclusion of material balances that are not appropriate for the basis of accounting used.
2. Improper accounting of a transaction (for example, recording a capital lease as an operating lease).
3. Omission of the disclosure of the method of income recognition as required by professional standards.
4. For a preparation engagement, failure to include, either on the face of the financial statements or in a note to the financial statements, a description of the financial reporting framework when the financial statements have been prepared in accordance with a special purpose framework.
5. 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).
7. For a preparation engagement, 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.

Question 1
For each example, discuss whether it would result in a preparation engagement that does not conform to professional standards in all material respects. Additionally, discuss examples from your own experience related to each item.

Solution 1
Items 1, 2, 4, and 7 are listed within PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency.

Items 3, 5, and 6 are listed within PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Not Result in a Deficiency or Significant Deficiency. Note that issues identified should be evaluated individually and in the aggregate. While items 3, 5, and 6 are in PRP Section 6200, Appendix E, as examples that individually would generally not result in a deficiency or significant deficiency, it is possible that aggregation of these issues with other issues identified could result in a deficiency or significant deficiency. Similarly, the relative importance of the issue to the related industry should be considered when making a determination.

Question 2
When you find issues on preparation engagements that require judgement to determine if the engagement conforms to professional standards in all material respects, what resources do you use to help make those determinations?

Solution 2
There is no right or wrong answer, as the purpose of this question is to allow for discussion among participants regarding resources they use when determining if an engagement materially conforms with applicable professional standards.

Some available resources include:
- A&A Hotline available at 877-242-7212
• Peer Review Hotline available at 919-402-4502 or prptechnical@aicpa.org
• Appendix E to PRP Section 6200
• PRP Section 20,250, *General Preparation Engagement Checklist for Engagements Performed in Accordance With SSARS*
• Professional Standards available through Online Professional Library and on aicpa.org
• AICPA Guide *Preparation, Compilation, and Review Engagements*
CASE #14

Engagement Reviews – Statements on Quality Control Standards No. 8

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
You are a Review Captain performing your very first peer review. From your training courses, you know the objective of an Engagement Review is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. You are aware that an Engagement Review does not provide the Review Captain with a basis for expressing any form of assurance on the firm’s system of quality control.

However, you also know that Statements on Quality Control Standard (SQCS) No. 8 states that a firm should document their quality control policies and procedures. In order to better understand your client, you would like to review its written quality control policies and procedures.

Question 1
Should, or may, the Review Captain obtain or make inquiries regarding a firm’s written quality control policies and procedures during an Engagement Review?

Solution 1
No, a Review Captain should not obtain or make inquiries regarding a firm’s written quality control policies and procedures during an Engagement Review.

Interpretation 109-1 states, “An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and the applicable documentation required by professional standards.”

The Interpretation goes on to say the following: “Although the standards allow for ‘reading the applicable documentation required by professional standards’, and the SQCS are a part of professional standards, it might appear that the standards do not prohibit the reviewer from obtaining and reading the firm’s documented quality control policies and procedures; however, it is deemed as beyond the scope of an Engagement Review.”

Question 2
Would a firm’s failure to have its quality control policies and procedures documented result in an individual engagement being deemed not performed or reported on in conformity with applicable professional standards, even if there are no other matters, findings, or deficiencies noted on the engagement?
Solution 2
No, a firm’s failure to have its quality control policies and procedures documented would not result in an individual engagement being deemed not performed or reported on in conformity with applicable professional standards.

AR section 100, paragraph .72 states, “Deficiencies in or instances of non-compliance with a firm’s quality control policies and procedures do not, in and of themselves, indicate that a particular review or compilation engagement was not performed in accordance with SSARS.” This is also consistent with the SSAEs (and SASs).

Question 3
After performing the preliminary review of the engagements, the anticipated report rating is a fail. Is the Review Captain able to review the firm’s written quality control policies and procedures in order to provide the reviewed firm with possible areas that could assist them systemically?

Solution 3
No, a Review Captain should not obtain or make inquiries regarding a firm’s written quality control policies and procedures during an Engagement Review.

Interpretation 109-1 states, “If reading the firm’s documented quality control policies and procedures or the inability for the Review Captain to do so has no impact on whether the actual engagements submitted for review are performed and reported on in conformity with SSARS and the SSAEs in all material respects, reading the documented quality control policies and procedures would only appear to give a Review Captain the insight concerning the systemic cause concerning why a matter, finding, or deficiency occurred. Although this may be useful information in preparing MFCs or FFCs, the systemic reasons for these items are beyond the scope of an Engagement Review. Therefore, obtaining or reviewing a firm’s documented quality control policies and procedures would not be applicable to Engagement Reviews.”

SCENARIO B
SQCS No. 8 states that at least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the requirements set forth in the Independence topic (AICPA, Professional Standards, ET sec. 1.200) which includes the “Independence Rule” (AICPA, Professional Standards, ET sec. 1.200.001) and its related interpretations and the rules of state boards of accountancy and applicable regulatory agencies.

Question 1
Should, or may, the Review Captain obtain or review a firm’s written independence confirmations during an Engagement Review?

Solution 1
No, a Review Captain should not obtain or review a firm’s written independence confirmations during an Engagement Review.

Interpretation 109-1 states, “Obtaining or reviewing a firm’s written independence confirmations would not be applicable to Engagement Reviews because the requirement is embedded in the SQCSs and not a procedure required by SSARSs or the SSAEs.”
Interpretation 109-1 also states, “An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and the applicable documentation required by professional standards.”

The Interpretation goes on to say the following: “Although the standards allow for ‘reading the applicable documentation required by professional standards’, and the SQCS are a part of professional standards, it might appear that the standards do not prohibit the reviewer from obtaining and reading the firm’s documented quality control policies and procedures; however, it is deemed as beyond the scope of an Engagement Review.”
Case #15

Engagement Reviews – 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
Appendix B of PRP Section 1000 provides multiple illustrative examples of representation letters for both System and Engagement Reviews. Below are the illustrative examples for both a representation letter that has no significant matters to report in an Engagement Review and in a System Review. Consider these illustrative examples and respond to each question below.

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.)

Date of the exit conference

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 [peer review year end].

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]

Illustration of a Representation Letter That Has No Significant Matters to Report to the Team Captain for a System 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 team captain.)

Date of the exit conference

To [Name of Team 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 [peer review year end].

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 team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of the date of this letter. This list...
appropriately identified and included, but was not limited to, all engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of broker-dealers, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable. We understand that failure to properly include engagements subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[For system reviews; customized where applicable] We have completed and issued the following must-select engagements and, to the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under Government Auditing Standards
2. Compliance audits under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Audits of broker-dealers
6. Examinations of service organizations (SOC 1 and SOC 2 engagements)

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

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

Sincerely,

[Reviewed Firm Representative]
**Question 1**
What are the main differences between the representation letters used for a System Review and an Engagement Review?

**Solution 1**
The main differences include references to
1) “Must-select” engagements, including the statement in an Engagement Review that the firm does not perform such engagements.
2) The team or review captain.
3) “Accounting” or “accounting and auditing.”

The tracked changes below illustrate the differences between the Engagement Review and System Review representation letters.

**Illustration of a Representation Letter That Has No Significant Matters to Report to the Review-Team Captain for an Engagement a System 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-team captain.)

Date of the exit conference

To [Name of Review-Team 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 [peer review year end].

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-team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of broker-dealers, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable. 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.

[For system reviews: customized where applicable] We have completed and issued the following must-select engagements and, to the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under Government Auditing Standards
2. Compliance audits under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Audits of broker-dealers
6. Examinations of service organizations (SOC 1 and SOC 2 engagements)

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

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

Sincerely,

[Reviewed Firm Representative]

Question 2
When you are performing a peer review, do you provide your clients with a template representation letter? If so, where do you obtain it? If not, where do you direct your clients to obtain it?

Solution 2
There is no right or wrong answer to this question. It is intended to share information amongst participants about resources available and ideas to help in their practice management. Potential solutions include:

1) Illustrative examples in Appendix B of PRP Section 1000.

Note: The Engagement Review Rep Letter Examples document is currently located in the “2-Planning Folder,” however it will be relocated to the “4-Fieldwork & Completion Folder” during our next update (September 2019).

3) If participants indicate they keep a local template (on their computer or a firm shared drive), participants could discuss how they ensure it reflects current guidance and how often they compare the template against the Peer Review Standards for any changes.

Question 3
Can the illustrative examples provided in Appendix B of PRP Section 1000 be altered or are they required to be used as presented?

Solution 3
The minimum applicable representations in the standard illustration are required and should not be modified; however, additional representations may be added as discussed in Interpretation 208-8-1 of PRP Section 2000.

Interpretation 208-8-1 of PRP Section 2000

Question—Paragraph .208(8) (appendix B) of the standards advises that the firm is required to make specific representations but is not prohibited from making additional representations beyond the required representations, in its representation letter to the team captain or review captain. What parameters should be used in tailoring the representation letter?

Interpretation—The representation letter is not intended to be onerous for the reviewed firm. Allowing reviewers to add or delete whatever they want to the representation letter would make it very difficult to maintain consistency in the program. In addition, this becomes a very important issue because a firm’s failure to sign the representation letter may be considered noncooperation.

However, at a minimum the representation letter should comply with the spirit of the guidance, there is value to the reviewer of obtaining certain representations in writing. Thus, if during the review, something comes to the reviewer’s attention whereby the reviewer believes the reviewed firm is providing contradicting or questionable information, the reviewer should investigate the matter further and may consider having the firm include the matter in the representation letter.

Reviewed firms and reviewers are not permitted to tailor the required representations unless otherwise stated in paragraph .208(8) because these are considered the minimum applicable representations for both System and Engagement Reviews.

Question 4
What is the impact of using the wrong template (system vs engagement review, or significant matters vs no significant matters to report)?

Solution 4
If the wrong template is used or if it is outdated, the technical reviewer or Committee/RAB will likely require revisions and it may result in reviewer feedback.

As discussed in the previous question, the representation letter should comply with the spirit of the guidance, and there is value to the reviewer of obtaining certain representations in writing. The representation letter protects the team or review captain and should be closely scrutinized to ensure that all appropriate representations have been made (in accordance with paragraph .208 of PRP Section 1000, and Interpretation 208-8-1 of PRP Section 2000).
CASE #16

Engagement Reviews – Common Issues at the Due Date

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
It is August 1st and you are a review captain performing several Engagement Reviews, and each review has a unique situation regarding the due date or year-end to consider.

Firm A
- The firm’s peer review is due on September 30th.
- Partner A was recently engaged to perform her very first review engagement with a March 31st period-end (and will be in scope for purposes of the peer review).
- Partner A, however, doesn't believe the engagement will be completed until October.

Firm B
- Firm B enrolled in the peer review on June 30, 20X1 due to the completion of its first accounting engagement, in this case a compilation engagement with disclosures.
- The compilation engagement has a period end of April 30, 20X1 and the accountant’s report was dated on June 30, 20X1.
- Since then, the firm has started performing additional compilations.

Firm C
- The firm’s peer review was due on July 31st.
- The firm has two partners, but only one partner (Partner C) performs A&A engagements.
- Due to recent health issues, this partner has been admitted to the hospital and will be unable to address the matters and the findings identified during the peer review for at least the next 1 to 2 months.

Question 1
What course of action should the review captain take related to the peer review of Firm A?

Solution 1
In this case, the review captain should recommend to the firm that it should request an extension from the administering entity.

According to Interpretation No. 18-1, “circumstances may arise that require the firm to extend its review due date. In such situations, a firm may do so only with prior, written approval of the administering entity, and the extended review due date only applies to the current review.”

Additionally, Interpretation No. 18-1 states that “it is the responsibility of the firm to ensure that any change in the review due date (or year-end) approved by the administering entity is recognized by any other organizations requiring it to have a peer review.”
Interpretation 58-2, while specific to System Reviews, does specifically mention this example and states, “if there is an incomplete engagement (which is an initial engagement) and there is no comparable engagement, the firm should request an extension from the administering entity.”

The extension period would likely only need to be two months or less, and can be requested directly within PRIMA by the firm. Finally, some important points to keep in mind when discussing extensions include:

- Extensions of a review due date by more than three months should be rare, and
- Extensions should be requested as soon as it is determined to be necessary; during the planning phase of the peer review if possible.

**Question 2**
For Firm B, what should the peer review’s year-end and due date be?

**Solution 2**
In this case, the firm’s peer review year-end will likely be June 30, 20X2 with a due date of December 31, 20X2.

According to Standards paragraph .17, “Peer reviews must cover a current period of one year to be mutually agreed upon by the reviewed firm and the reviewing firm.” So you may be wondering, how do I determine the one year period? Interpretation No. 17-1 further explains, “Peer reviews are ordinarily due 6 months after the firm’s peer review year-end date. The team or review captain should take the review due date into consideration prior to accepting the peer review…” So with that in mind, you would just need to determine what the firm’s due date will be.

According to Standards paragraph .13, “A firm’s due date for its initial peer review is ordinarily 18 months from the date it enrolled in the program or should have enrolled, whichever date is earlier.” Per Interpretation No. 13-1, “When an individual becomes an AICPA member, and the services provided by his or her firm (or individual) fall within the scope of the AICPA’s practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA Professional Standards, the firm (or individual) should enroll in the program and submit an enrollment form by the report date of the initial engagement.”

With this guidance in mind, the firm should have enrolled on June 30, 20X1, the report date of its initial engagement, which it did. The due date would then be December 31, 20X2, which is 18 months subsequent to June 30, 20X1. The firm’s year-end would then be 6 months prior to that, or June 30, 20X2.

You will notice the firm’s initial engagement will not be in the scope of the firm’s first peer review, as its period-end would not fall into the firm’s peer review year. In this case, there is no issue, as the scenario indicates the firm is continuing to perform A&A engagements and thus will have engagements for you to review and there is no requirement to review the firm’s initial engagement. However, if the firm has not performed subsequent engagements, but intends to do so, you may need to set the peer review year so that the initial engagement is in scope.
Question 3
For Firm B, what would the peer review’s year-end and due date be if the firm enrolled on December 31, 20X2 instead of June 30, 20X1?

Solution 3
In this case, the firm’s peer review year-end will likely still be June 30, 20X2, however, the due date will likely be March 31, 20X3, 90 days after the firm has enrolled.

Unfortunately, this situation happens more than it should. For a multitude of reasons, firms don’t enroll when they should, oftentimes significantly later than they should. As solution 2 states, “A firm’s due date for its initial peer review is ordinarily 18 months from the date it enrolled in the program or should have enrolled, whichever date is earlier.”

The report date of the engagement didn’t change in this scenario, so the guidance would have still suggested that the due date would be December 31, 20X2. However, that isn’t practical given the firm just enrolled on that date.

While no specific guidance would say when the firm’s peer review is due in this situation, most administering entities will assign a due date of 90 days after the firm enrolls.

Question 4
What course of action should the review captain take related to the peer review of Firm C?

Solution 4
The review captain or the firm’s other partner should contact the administering entity and request an extension for the peer review.

According to Interpretation No. 18-2, the administering entity should be consulted, when possible, about how the firm believes the situation has affected or will affect its peer review or its ability to perform scheduled peer reviews (if applicable) when circumstances out of a firm’s control, such as a natural disaster or other catastrophic event, affect a firm’s ability to comply with some or all of the peer review requirements, including timing of the peer review.

Additionally, if the firm’s peer review already commenced and the continued performance of the peer review is impacted, the firm should notify its administering entity as soon as reasonably possible. The administering entity will assist in determining the best course of action.

In this case, the peer reviewer can request the firm’s other partner to contact the administering entity in order to determine the most appropriate action.