SCENARIO A
The team captain on a peer review was reviewing the working papers on an audit of a retail company performed by Partner A. While reviewing the working papers related to the firm’s risk assessment procedures, a sense of dread fell over her. She vaguely remembered the Peer Review Board had recently approved some revised guidance related to risk assessment non-compliance, but she hadn’t paid too close attention to it as she figured most firms knew what they were doing in this arena.

Specifically, when looking at the firm’s working papers, she noticed:

- For several, but not all relevant assertions, the firm had factored in a moderate assessment of control risk into its combined risk assessment, even though it had elected to not test controls.
- For the cash audit area, the firm did not assess risk at the relevant assertion level, instead applying one overall risk of material misstatement for the audit area. For every other audit area, risk was assessed at the relevant assertion level.
- For the inventory audit area, the risk of material misstatement for each relevant assertion appeared appropriate, but when designing the related audit procedures for inventory, the firm only performed basic procedures for every assertion. Based on the assigned risk of material misstatement, the firm’s quality control materials suggested more extensive procedures related to the existence assertion should have been designed.

The team captain was uncertain as to whether the engagement was non-conforming and decided to read the September 2018 Reviewer Alert to make sure she came to the right conclusion.

**Question 1**
Is the engagement non-conforming?

**Solution 1**
Yes, each bullet listed above represents an instance of non-compliance with the risk assessment standards and therefore the engagement should be considered non-conforming.

Discussion leaders should emphasize to attendees that each individual item of non-compliance noted above would cause the engagement to be non-conforming.

Peer Review Program Manual Section 3100, *Supplemental Guidance*, states: “if an auditor fails to comply with the requirements of AU-C 315 or 330, then the objectives of [the auditing] standards would not be met. Accordingly, the audit would not be conducted.
in accordance with GAAS and the auditor would fail to obtain sufficient appropriate audit evidence to support the audit opinion. Therefore, it would be difficult to conclude that such an engagement conforms with professional standards from a peer review perspective and should be considered nonconforming."

Specific examples included in Section 3100 of when an engagement would be non-conforming due to non-compliance with the risk assessment standards includes:

- Failure to assess or document the assessment of risk at both the relevant assertion level and financial statement level. A reviewer may encounter audits where the risks of material misstatement are assessed at the account level only, rather than at the relevant assertion level.
- Failure to properly document the firm’s identification and assessment of the RMMs and response thereto. Reviewers should consider the linkage between the risk assessment and the auditor’s procedures, and they should determine whether the procedures are responsive to the client’s financial statement- and assertion-level risks.

Additionally, the September 2018 Reviewer Alert mentions that “auditors…inappropriately [reducing] control risk to less than high without appropriately testing relevant controls” is a common example of non-compliance with the Risk Assessment Standards.

Discussion leaders should also remind attendees that judgement is a key element in determining whether non-compliance with the risk assessment standards exists. For example, consider the first instance of non-compliance listed in the scenario above and assume the firm documents control risk as moderate for some relevant assertions without testing controls. Now consider that the firm documents an appropriate overall risk of material misstatement for each assertion and plans all audit procedures appropriately as if control risk was set at high. Based on conversations with the firm, the review team may be able to determine that the “moderate” designation for control risk is a “clerical error” and there is no non-compliance with the Risk Assessment Standards.

In summary, determining whether non-compliance with the Risk Assessment Standards exists is not always an easy decision to reach so reviewers are encouraged to consult early and often. Great resources to determine if non-compliance with the Risk Assessment Standards exists are the A&A Technical Hotline and the Issue Advisory Hotline.

**Question 2**
Would any of the following situations cause the non-compliance with the risk assessment standards to result in a matter ONLY?

A. Other engagements performed by Partner A included instances of non-compliance with the Risk Assessment Standards but the review team did not find any instances of non-compliance with the Risk Assessment Standards on engagements performed by the firm’s other partners.
B. The review team only found instances of non-compliance with the risk assessment standards on the firm’s audit engagements in the retail industry. The firm performs engagements in several other industries.
C. The review team only found this one instance of non-compliance with the risk assessment standards, even after expanding the scope of the peer review.
D. The non-compliance with the risk assessment standards could result in a matter ONLY in each situation described above.

**Solution 2**
**Option C is correct. If an instance of non-compliance with the Risk Assessment Standards is isolated, then it is appropriate to issue ONLY a matter.**

The instances of non-compliance described in options A and B are not isolated and therefore the review team should issue a finding, at a minimum. As options A and B are not correct, option D is also not correct.

As stated in PRPM Section 3100, if the firm’s failure to comply with the risk assessment standards is determined to be isolated, then issuing a matter but not a finding or a deficiency is appropriate.

Reviewers must be careful when concluding that an instance of non-compliance is isolated. As a reminder, Interpretation No. 84-1 states that an isolated matter occurs when there is an incident (or limited incidents) of noncompliance with professional standards or the firm’s quality control policies and procedures on one or more engagements (or aspect of a functional area) and the identical standards or policies and procedures were complied with on the remaining engagements or aspect of a functional area. The reviewer needs to evaluate the pervasiveness of the issue, including expanding scope if necessary. For options A and B, the instances of non-compliance are “pervasive” for a partner and an industry type, respectively.

**Question 3**
What follow up action (e.g. corrective action or implementation plan) would be appropriate in this scenario?

**Solution 3**
The appropriate corrective action or implementation plan depends on the judgement of the review team, factoring the severity of the non-compliance and its related systemic cause.

If non-compliance with the Risk Assessment Standards is determined to be a finding (which is likely), the RAB will assign an implementation plan. According to PRPM Section 3100, this implementation plan would be one or more of the following:
- CPE (webcast, other)
- Pre-issuance reviews
- Post-issuance reviews

If CPE is determined to be the appropriate implementation plan, the RAB will likely assign the following AICPA on-demand course (or a suitable alternative):
- Risk Assessment Deep Dive: How to Avoid Common Missteps

When discussing with the firm its response to the implementation plan, reviewers are encouraged to discuss with firms these possible implementation plans and the possibility of incorporating these actions into their response to the finding.
Similar actions will be assigned as corrective actions if the non-compliance with the Risk Assessment Standards results in a deficiency. Consistent with the statement above, reviewers are encourage to discuss the possibility of incorporating these actions into their letter of response.
CASE #2

System Reviews – Documentation

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

Estimated Time to Complete: 10 Minutes

SCENARIO A
Client has one note receivable, and the note balance is material to the financial statements.

Auditor tested the note for existence, rights and valuation
- No significant findings or issues were noted
- No significant judgments were made

<table>
<thead>
<tr>
<th>Audit Program Step</th>
<th>Preparer sign-off and date</th>
<th>Reviewer sign-off and date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain and review note(s) receivable. Test existence, rights and valuation assertions.</td>
<td>CRM 3/30/X9</td>
<td>BAM 4/2/X9</td>
</tr>
</tbody>
</table>

Question 1
Does the audit documentation comply with AU-C 230?

Solution 1
No, because the documentation does not include the nature and extent of the procedures performed or the results of the procedures performed.

According to paragraph .08 of AU-C, “The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand
a. the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;
b. the results of the audit procedures performed, and the audit evidence obtained; and
c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Question 2
What are some examples of information the audit team should add to the documentation to make it comply with the documentation requirements?

Solution 2
The audit team should include documentation regarding:
1) How the audit team obtained the note
2) An identifying factor of the note to enable a third party to be able to get the same note
c) Verification that the client is the holder of the note  
d) Confirmation from the borrower of the amount outstanding and the maturity date of the note  
e) History of repayments/payments of principal and interest on the note

**Question 3**  
Based on the question above, what is an example of additional documentation that could be added to the working papers?

**Solution 3**  
CRM Note: Controller provided audit team with note issued 11/17/20X8. Reviewed note, verifying existence and that the entity is the holder of the note. Received letter from the borrower (see working paper B200) confirming the face amount of $112,000 was outstanding at fiscal year-end and matures on 5/31/X9. Tied face amount back to trial balance.

**Question 4**  
In discussing the matter with the firm, the engagement partner explained that he did review the note agreement and called the borrower to confirm the outstanding balance and the payment terms. The engagement partner was even able to show the reviewer his handwritten notes about the conversation. Based on this discussion, the reviewer was comfortable that the appropriate procedures were performed.

How would this additional information impact the reviewer’s conclusions on this engagement?

**Solution 4**  
While this additional information provides comfort that this is not a performance issue, this oral discussion does not take the place of documentation. Accordingly, there should be a “no” answer related to the sufficiency of audit documentation. Assuming the note balance is material to the financial statements, the engagement would be deemed non-conforming. At a minimum, an MFC should be written for the documentation issue on this engagement.

According to paragraph A7 of AU-C 230, “On their own, oral explanations by the auditor do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.”

Appropriate remediation would include adding documentation to the working papers that provided the necessary details on the procedures the firm performed related to this guidance.

**Question 5**  
How would the reviewer handle this guidance if the partner did not have this additional information?

**Solution 5**  
The engagement would still be a non-conforming engagement. The remediation would be for the firm to go back and perform the additional procedures to verify the existence, rights and valuation assertions of the note receivable. Additionally, in considering the
systemic cause of the issue, the focus will be on why the firm did not test the note receivable.
CASE #3

System Reviews – Internal Controls

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

Estimated Time to Complete: 15 Minutes

SCENARIO A
Respond to whether each of the following questions are true or false.

Question 1
All controls over financial reporting are relevant to the audit.

Solution 1
False. It is up to the auditor’s judgement to determine which controls over financial reporting are relevant to the audit.

AU-C 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, states the following:
.13 “The auditor should obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor’s professional judgment whether a control, individually or in combination with others, is relevant to the audit.”

Question 2
If an auditor defaults to the maximum level of control risk, they do not need to gain an understanding of their client’s internal controls.

Solution 2
False. Auditors are required to gain an understanding of a client’s internal controls as part of the risk assessment process. Refer to AU-C 315.13 above.

AU-C 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, states the following:
.A49 An understanding of internal control assists the auditor in identifying types of potential misstatements and factors that affect the risks of material misstatement and in designing the nature, timing, and extent of further audit procedures.

Question 3
Gaining an understanding of internal controls involves not only inquiry of client personnel, but also determination that the controls have been implemented as designed.

Solution 3
True.
AU-C 315.14 When obtaining an understanding of controls that are relevant to the audit, the auditor should evaluate the design of those controls and determine whether they have been implemented by performing procedures in addition to inquiry of the entity's personnel. (Ref: par. .A75-.A77)

**SCENARIO B**

Mr. Reviewer is performing the peer review of Firm A. During his review Mr. Reviewer selected 4 audits, 1 review and 1 compilation with disclosures. During the review of these engagements, Mr. Reviewer identified the following:

- **Audit A** - The engagement team assessed control risk at low based on the firm's knowledge of the client from prior year audits. The engagement team asked client management about any changes in the controls from prior years and the client confirmed that there weren't any changes made.
- **Audit B** - The engagement team did not consider internal controls as part of their risk assessment procedures. The client is a very small company and the owner is also responsible for all accounting. Therefore, there are very few internal controls.
- **Audit C** - The engagement team defaulted to the maximum level of risk for controls without gaining an understanding of the controls in place. They believed that this would be more efficient than taking the time to gain an understanding of the controls in place.
- **Audit D** - The engagement team asked client management for a list of all internal controls related to the accounting function. Upon receipt of the list they gained an understanding of the controls related to accounts payable and accounts receivable only.

There were no other "no" answers identified on the engagements reviewed.

**Question 1**

Should the reviewer classify the engagements as conforming or non-conforming?

**Solution 1**

All four of the audits described above would be deemed non-conforming.

Paragraph .13 of AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* requires that the auditor gain an understanding of the internal controls relevant to the audit as part of the risk assessment procedures. The firm did not do that in these examples. Accordingly, the engagements should be deemed nonconforming. In the case of Audit D, obtaining an understanding of the internal controls related to only two accounts would not be sufficient. The firm would need to obtain an understanding of the controls impacting all material accounts.

Paragraph .A52, “Considerations specific to smaller, less complex entities”, states that smaller entities may use less structured means and simpler processes and procedures to achieve their objectives. For example, smaller entities with active management involvement in the financial reporting process may not have extensive descriptions of accounting procedures or detailed written policies. For some entities, in particular very
small entities, the owner-manager (the proprietor of an entity who is involved in running the entity on a day-to-day basis) may perform functions that in a larger entity would be regarded as belonging to several of the components of internal control. Therefore, the components of internal control may not be clearly distinguished within smaller entities, but their underlying purposes are equally valid. [Paragraph renumbered by the issuance of SAS No. 128, January 2015.]

Paragraph .A69 states factors relevant to the auditor’s professional judgment about whether a control, individually or in combination with others, is relevant to the audit may include such matters as the following:

• Materiality
  • The significance of the related risk
  • The size of the entity
  • The nature of the entity's business, including its organization and ownership characteristics
    • The diversity and complexity of the entity’s operations
    • Applicable legal and regulatory requirements
    • The circumstances and the applicable component of internal control
    • The nature and complexity of the systems that are part of the entity's internal control, including the use of service organizations
    • Whether and how a specific control, individually or in combination with other controls, prevents, or detects and corrects, material misstatements

Internal controls are an area of focus for the 2019 Enhancing Audit Quality Initiative. The AICPA has determined the following are the most common misconceptions in this area.

• Not understanding what a control is;
• Not understanding what controls are relevant to the audit;
• Stopping after determining whether a control exist;
• Improperly assessing control risk; and
• Not linking audit procedures to the control-related risks.

You should be on the lookout for issues in these areas. The AICPA is developing additional resources related to internal controls.

**Question 2**
What is the impact of these non-conforming engagements on the results of the peer review?

**Solution 2**
Because the non-compliance is pervasive (not isolated), an FFC should be issued since there were no deficiencies or significant deficiencies related to other engagement performance issues noted. In writing the FFC, the team captain should work closely with the firm to determine what the systemic cause is of the firm not appropriately complying with the auditing standards related to internal controls.

**Question 3**
Discuss the potential underlying systemic cause(s). Based on this discussion, what would be an appropriate implementation plan?
**Solution 3**
For the systemic cause discussion, discussion leaders should poll attendees as to what the systemic cause could be. Attendees could also be asked what types of systemic causes they have seen for peer reviews that contained similar issues as described in the scenario.

When an FFC is issued for non-compliance with the risk assessment standards, which also incorporate the requirements for internal controls, an implementation plan should be required that includes one or more of the following:

- CPE (webcast, other)
- Pre-issuance reviews
- Post-issuance reviews

As a reviewer, you should provide recommendations to the RAB regarding the type of follow-up action you believe is appropriate in the circumstances. The type of follow-up action that is required should be entirely dependent on the nature and extent of the non-compliance you identify. For example, CPE might be appropriate if certain requirements were performed but not documented. However, for more significant instances of non-compliance, for example when the firm fails to identify any significant risks and significant risks are present, you should suggest more substantial follow-up actions, such as pre- or post-issuance reviews.

Given the potential underlying systemic cause(s) for this scenario, a more substantial follow-up action such as pre- or post-issuance review would more than likely be acceptable to the RAB as an implementation plan.

**Question 4**
What would be the impact of the conformity related to internal controls if the team captain identified a deficiency related to the firm failing to send out accounts receivable confirmations on two of the four audits reviewed?

**Solution 4**
Because the non-compliance is pervasive (not isolated) and another deficiency was identified related to omitting nonconforming engagements, a deficiency should be included in the report.

In writing the deficiency, the team captain should work closely with the firm to determine what the systemic cause is of the firm not appropriately complying with the auditing standards related to internal controls.
CASE #4

System Reviews – Risk Assessment: Peer Review Impact and Required Remediation

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

Estimated Time to Complete: 15 Minutes

SCENARIO A
In performing the peer review of Hazzard & Company, Bo Duke selected one of the firm’s manufacturing audit engagements for review. In his review, Mr. Duke concluded that Hazzard & Company failed to gain an understanding of internal controls when identifying the client’s risks. This conclusion was reached because in its risk assessment workpapers, Hazzard & Company defaulted to maximum control risk without gaining an understanding of the control environment. When Mr. Duke discussed this issue with the management of Hazzard & Company, management noted this approach was permissible because Hazzard & Company was not intending to rely on tests of controls for the engagement.

Question 1
Based on Bo Duke’s conclusion formed during review of the performed risk assessment procedures, should the engagement under review be considered non-conforming?

Solution 1
Yes, based on the guidance below, Hazzard & Company did not comply with the professional standards around risk assessment and therefore, the engagements should be considered non-conforming.

AU-C 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, states the following:
.12 The auditor should obtain an understanding of the following:
   a. Relevant industry, regulatory, and other external factors, including the applicable financial reporting framework.
   b. The nature of the entity, including
      i. its operations;
      ii. its ownership and governance structures;
      iii. the types of investments that the entity is making and plans to make, including investments in entities formed to accomplish specific objectives; and
      iv. the way that the entity is structured and how it is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
   c. The entity’s selection and application of accounting policies, including the reasons for changes thereto. The auditor should evaluate whether the entity’s accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.
   d. The entity’s objectives and strategies and those related business risks that may result in risks of material misstatement.
e. The measurement and review of the entity’s financial performance.

**Question 2**
Bo Duke expanded scope to the other four audits performed by Hazzard & Company and noted the same issue on each of the other engagements. There were no other items identified on these engagements. What should be the peer review impact of this scope expansion?

**Solution 2**
Because the non-compliance is pervasive (not isolated), an FFC should be issued since there were no deficiencies or significant deficiencies related to other engagement performance issues noted.

**Question 3**
Discuss the potential underlying systemic cause(s). Based on this discussion, what would be an appropriate implementation plan?

**Solution 3**
When an FFC is issued for non-compliance with the risk assessment standards, an implementation plan should be required that includes one or more of the following:
- CPE (webcast, other)
- Pre-issuance reviews
- Post-issuance reviews

As a reviewer, you should provide recommendations to the RAB regarding the type of follow-up action you believe is appropriate in the circumstances. The type of follow-up action that is required should be entirely dependent on the nature and extent of the non-compliance you identify. For example, CPE might be appropriate if certain requirements were performed but not documented. However, for more significant instances of non-compliance, for example when the firm fails to identify any significant risks and significant risks are present, you should suggest more substantial follow-up actions, such as pre- or post-issuance reviews.

Given the potential underlying systemic cause(s) for this scenario, a more substantial follow-up action such as pre- or post-issuance review would more than likely be acceptable to the RAB as an implementation plan.

**SCENARIO B**
Assume Bo Duke identified, on more than one engagement, that Hazzard & Company performed insufficient risk assessment procedures by failing to identify fraud risk associated with revenue recognition as a significant risk.

**Question 1**
Based on Mr. Duke’s conclusion formed during review of the performed risk assessment procedures, should the engagements under review be considered non-conforming?

**Solution 1**
Yes, regardless of the size of the entity, failure to identify at least one significant risk almost always represents a failure to comply with AU-C 315.28. AU-C 240.26 states, there is a presumption that risks of fraud exist in revenue recognition, and under AU-C 240.27, risks of material misstatement due to fraud should be treated as significant risks
Based on this guidance, Hazzard & Company did not comply with the professional standards and therefore, the engagements should be considered non-conforming.

**Question 2**
Assuming there were no deficiencies or significant deficiencies related to other engagement performance issues noted, what should be the peer review impact of this issue?

**Solution 2**
Because the non-compliance is pervasive (not isolated), an FFC should be issued since there were no deficiencies or significant deficiencies related to other engagement performance issues noted.

**Question 3**
Discuss the potential underlying systemic cause(s). Based on this discussion, what would be an appropriate implementation plan?

**Solution 3**
When an FFC is issued for non-compliance with the risk assessment standards, an implementation plan should be required that includes one or more of the following:

- CPE (webcast, other)
- Pre-issuance reviews
- Post-issuance reviews

As a reviewer, you should provide recommendations to the RAB regarding the type of follow-up action you believe is appropriate in the circumstances. The type of follow-up action that is required should be entirely dependent on the nature and extent of the non-compliance you identify. For example, CPE might be appropriate if certain requirements were performed but not documented. However, for more significant instances of non-compliance, for example when the firm fails to identify any significant risks and significant risks are present, you should suggest more substantial follow-up actions, such as pre- or post-issuance reviews.

Given the potential underlying systemic cause(s) for this scenario, a more substantial follow-up action such as pre- or post-issuance review would more than likely be acceptable to the RAB as an implementation plan.
CASE #5

System Reviews – Team Captain Documentation

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

Estimated Time to Complete: 20 Minutes

SCENARIO A

You are the team captain performing the peer review of a firm that has three partners, and its audit and accounting practice consists of

- 11 employee benefit plan (EBP) audits (defined contribution, defined benefit, and ESOP),
- 140 'other SAS' audits
- 3 review engagements under SSARS, and
- 6 examinations of written assertions under SSAEs.

You reviewed three EBP audits (one from each type of plan), all of which were deemed to be nonconforming. Also related to the EBP audits, you issued four MFCs, two FFCs, and one deficiency. The employee benefit plan audits represent 7% of the firm’s total A&A engagements and 12% of their A&A hours.

To obtain appropriate coverage of the partners and an appropriate cross-section of engagements, you also reviewed

- 4 ‘other SAS’ audits, resulting in 2 MFCs (neither of which were elevated further),
- 1 review, resulting in no MFCs, and
- 1 examination of written assertions, resulting in 1 MFC that was elevated to an FFC.

All of the employee benefit plan audit reports are signed by one partner. That partner is also the signing partner on all 3 review engagements and 25 of the other SAS engagements.

The peer review resulted in a total of 7 MFCs, 3 FFCs (which did not rise to the level of a deficiency), and the following deficiency:

Deficiency Identified in the Firms’ System of Quality Control

We noted the following deficiency during our review:

The firm’s quality control policies and procedures addressing the human resources component of engagement assignments are not designed to provide the firm with reasonable assurance that the engagements are being performed in accordance with professional standards. There is a deficiency in the firm’s knowledge of auditing standards specific to some areas for the employee benefit plans. There was not appropriate audit documentation in accordance with AU-C 230 in some areas for the employee benefit plan engagements. In our opinion, the issue was pervasive to the firm’s employee benefit plan audit practice and resulted in these engagements to not conform to professional standards in all material respects.
As the team captain you have concluded that the issues identified result in a report rating of *pass with deficiency*. However, when considering the volume of issues identified, you did consider a fail report.

**Question 1**

Item b. in the Overall Findings and Conclusions section of PRP Section 4800, *Summary Review Memorandum (SRM)*, states "if you considered issuing a different type of report than the report issued, describe the situation fully, including the basis for your conclusion." Given the fact pattern described in scenario A, how would you respond to this item in the SRM?

**Solution 1**

**Note for discussion leaders:** There is no right or wrong answer to this question and certain assumptions may be necessary based on limited information in the fact pattern. Recall for participants that one of the stated purposes of the SRM is to document the support for the type of report issued. This documentation is required to enable the administering entity to exercise its oversight function in an effective and consistent manner. This includes providing enough information for the technical reviewer and RAB to understand what the team captain considered and what factors contributed towards the report rating.

According to paragraph .24 of PRP Section 1000: Peer review documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. The documentation provides evidence of the work performed and is the basis for the review of the quality of the work. It should demonstrate that the peer reviewer complied with these standards and should support the basis for the peer reviewer’s conclusions. Also, the documentation should be appropriately organized to provide a clear link from the working papers to the peer review report.

The following are potential considerations that may be included in the SRM if a fail report rating was considered:

We considered issuing a fail report, however we believe that a pass with deficiency is appropriate in the circumstances, considering:

- the overall size of the EBP practice compared to the A&A practice. The EBP practice makes up approximately 7% of the A&A engagements and is limited to 1 signing partner, whereas the other SAS engagements are approximately 87% and are issued by all 3 partners.
- Other SAS engagements yielded 2 MFCs, but neither were elevated to an FFC.
- Issues identified that led to the EBP engagements being non-conforming were EBP-specific.
- With regards to the partner that signed all of the EBP reports, no issues were identified on the review engagement nor the other SAS engagement by the same partner, again reaffirming that the issues were EBP-specific.

**SCENARIO B**

A firm undergoing its peer review has one partner who is responsible for all of the A&A engagements. The partner performs 20 ‘other SAS’ audits, 4 reviews under SSARS, and 36 compilations that substantially omit all disclosures.
The other SAS engagements represent 33% of the firm’s total A&A engagements and 82% of their A&A hours. The other SAS engagements include: 15 not-for-profit entities (none of which are single audits), 2 real estate investment trusts (REIT), and 3 for-profit software entities. Based on the risk assessment, the team captain selected one engagement from each category. Two of the three other SAS audits were deemed to be nonconforming. Also related to the other SAS audits were two MFCs, one of which was elevated to an FFC (neither elevated to a deficiency or significant deficiency).

The team captain also reviewed one review and one compilation-omit disclosures, both engagements resulted in one MFC each.

The peer review resulted in a total of 4 MFCs, 1 FFC, and 2 of the other SAS engagements were deemed to be nonconforming.

The FFC, which was associated with the REIT and software engagements, was related to a lack of documentation of revenue testing, including inadequate documentation on the sampling approach used for the revenue testing.

The team captain submitted a pass report to the administering entity and did not write anything in response to the question in the SRM regarding consideration of an alternative report rating.

**Question 1**

Item b. in the Overall Findings and Conclusions section of PRP Section 4800, *Summary Review Memorandum (SRM)*, states “if you considered issuing a different type of report than the report issued, describe the situation fully, including the basis for your conclusion.” Was it appropriate to leave this question blank?

**Solution 1**

*Note for discussion leaders:* The solution to this scenario is similar to the solution for Scenario A as there is no right or wrong answer to this question. Again, refer to paragraph .24 of PRP Section 1000 (presented in Solution 1 to Scenario A) and recall that one of the stated purposes in the instructions to the SRM is that it should be used to document the support for the type of report issued.

It is reasonable that this fact pattern could result in a pass report, however, given that there were issues identified on all of the engagements, including 2 of the 3 audits reviewed being deemed nonconforming, both the technical reviewer and the RAB would likely have questions about the consideration of an alternative report rating. Submitting an SRM that includes that rationale could save a lot of time during the technical review and report acceptance processes.

**SCENARIO C**

A firm with two partners is undergoing its first peer review. The team captain reviewed engagements covering all levels of service and obtained 100% partner coverage. There were no issues identified with any of the engagements. The team captain issued 1 MFC which indicated the firm’s quality control document did not address monitoring, as such, the firm did not implement or perform any monitoring procedures during the peer review year.

The team captain submitted a *pass* report to the administering entity and wrote the following in response to the question in the SRM related to alternative report rating considerations:
While monitoring is a required element in a firm’s system of quality control, there were no issues identified with the engagements selected for peer review. Additionally, when the matter was discussed with the firm, they indicated a strong desire to do the right thing and have already updated their Quality Control Document to include a section on monitoring and have begun to implement it. Given their responsiveness to the matter, I believe a Pass report is appropriate.

Question 1
Is the team captain’s response sufficient?

Solution 1
Note for discussion leaders: There is no right or wrong answer to this question and certain assumptions may be necessary based on limited information in the fact pattern. Again, refer to paragraph .24 of PRP Section 1000 (presented in Solution 1 to Scenario A) and recall that one of the stated purposes in the instructions to the SRM is that it should be used to document the support for the type of report issued.

Given that the firm was missing a required element in their system of quality control, the team captain should consider whether the documentation in the SRM sufficiently articulates why this did not elevate to a deficiency or significant deficiency. Just because the firm did not have any issues with the work performed does not excuse them from complying with the quality control standards.

Question 2
Should the firm’s responsiveness to the issues identified during the peer review have any bearing on the report rating?

Solution 2
The firm’s responsiveness to the matters noted in the peer review may be indicative of a good (or bad) tone at the top; however, the peer review rating should be based on what did happen during the year under review.

Question 3
Because MFC 1 relates to an issue with the firm’s system of quality control, should any other documentation be present?

Solution 3
The firm’s failure to implement monitoring procedures appears to be a breakdown in the firm’s design and compliance with its system of quality control, which would be documented in PRP Section 4600: Guidelines for Review of Quality Control Policies and Procedures for Firms with Two or More Personnel and PRP Section 4650: Guidelines for Testing Compliance with Quality Control Policies and Procedures for Firms with Two of More Personnel.

If the firm did not adequately design (and therefore did not comply with) policies and procedures related to monitoring, a ‘No’ answer would likely result in both the design and compliance checklists. The reviewer should include documentation related to considerations of any optional procedures that were performed. These procedures should be highlighted in the SRM related to the consideration of an alternative report rating.
CASE #6
System Reviews – Repeat Findings and Deficiencies

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

Estimated Time to Complete: 10 Minutes

SCENARIO A
A firm’s system of quality control requires the utilization of appropriate practice aids. In the prior peer review, the review team identified a finding related to non-attest services whereby the systemic cause was a lack of training in and utilization of required practice aids as required by firm policy. As a result, the firm did not adequately document that tax preparation was a non-attest service on other SAS engagements. During the current peer review, the firm’s documentation did not include client representations regarding a single audit engagement. Again, the underlying cause was determined to be a lack of training in and utilization of required practice aids as required by firm policy.

Question 1
Does this situation result in a repeat finding?

Solution 1
Yes. In a system review, a repeat finding is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it that is noted during the current review and also on an FFC form in the prior peer review. Even though the working paper areas and types of engagements in which findings were identified are different, because the underlying cause to both is the lack of training in and utilization of required practice aids, this would be considered a repeat finding in the current review.

Per PRP Section 2000, Interpretation 83-2:

Question -- For System Reviews and Engagement Reviews, what is considered a repeat finding on a finding for further consideration (FFC) form?

Interpretation -- On System Reviews, a repeat finding is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it that is noted during the current review and also on a FFC form in the prior peer review. The review team should read the prior review documentation, including the report, letter of response and FFC forms, if applicable, and evaluate whether the firm’s planned actions noted on those forms were implemented. If the firm’s planned actions to remediate the prior review findings were implemented, and the same finding is occurring, the review team should determine the condition in, or compliance with, the firm’s system of quality control that caused the current finding. If it is determined to be the same systemic cause, the FFC form should indicate that similar findings were noted in the prior review. The review team should also consider whether there are findings in other elements of quality control. If the prior remedial actions (corrective actions, implementation plans, or as discussed in the firm’s response on the FFC form) appear to
be effective, the finding may be caused by some other condition in, or compliance with, the firm’s system of quality control. If the systemic cause of the finding is different from that noted in the prior review, it would not be a repeat.

See section 3100, Supplemental Guidance, for an example of identifying repeat findings, deficiencies and significant deficiencies in a System Review.

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

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

**SCENARIO B**
Assume the same circumstances as Scenario A above, except the lack of training in and utilization of required practice aids is elevated to a deficiency during the current review.

**Question 1**
Does this situation result in a repeat finding even though it is a deficiency in the current review and was an FFC in the prior review?

**Solution 1**
Yes, as the deficiency was caused by the same system of quality control weakness noted on a FFC form in the prior review, it would be considered a repeat deficiency.

Per PRP Section 2000, Interpretation 96n-1:

Question—Paragraphs .96(n) and .122(n) of the standards instruct a team captain in a System Review (or review captain on an Engagement Review) to identify, for any deficiencies or significant deficiencies included in the report with a peer review rating of pass with deficiencies or fail, any that were also made in the report issued on the firm’s previous peer review. What further guidance is available in regards to this requirement?

Interpretation—On System Reviews, a repeat is a deficiency or significant deficiency noted during the current review that was caused by the same system of quality control weakness noted in the prior review’s report. The review team should read the prior report and letter of response and evaluate whether corrective actions discussed have been implemented to determine whether the systemic cause is the same. The deficiency or significant deficiency should note that “This deficiency [or significant deficiency, as applicable] was noted in the firm’s previous peer review.”

If the corrective actions have been implemented and the same deficiency or significant deficiency is occurring, the review team, in collaboration with the firm, should determine the weakness in the firm’s system of quality control that is causing the deficiency or
significant deficiency to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm’s system of quality control. If the systemic cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was caused by the same system of quality control weakness noted on a FFC form in the prior review. The team captain should consider if the firm’s planned actions to remediate the prior review findings were implemented, including implementation plans or those discussed in the firm’s response on the FFC form. If the prior remedial actions appear to be effective, the current deficiency may be caused by some other weakness in or compliance with the firm’s system of quality control. If the systemic cause of the deficiency is different from that noted in the prior review, it would not be a repeat. If the systemic cause is determined to be the same, under these circumstances, it would still be appropriate to use the same wording as previously described “This deficiency [or significant deficiency, as applicable] was noted in the firm’s previous peer review.” If the systemic cause is the same, the review team should also consider whether there are deficiencies in other elements of quality control.

**Question 2**
If this situation results in a repeat finding, what, if any, impact is there on the report?

**Solution 2**
*If a repeat deficiency is identified, it should be stated in the current report.*

Per PRP Section 2000, Interpretation 96n-1:

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

**SCENARIO C**
In the prior peer review, the review team identified several missing financial statement disclosures. The review team determined that the firm’s system of quality control required pre-issuance reviews on all engagements. While those reviews were performed as required, the pre-issuance reviews were not sufficiently comprehensive. The use of a checklist could have contributed to a comprehensive review. The review team elevated this matter to a deficiency and the systemic cause was determined to be the firm’s failure to require the use of an appropriate practice aid or to employ any other method that would ensure that a comprehensive partner review would be performed. As a result, the reviewed firm had introduced a new policy whereby an engagement reporting and disclosure checklist was required to be completed on every engagement.

In the current peer review, the review team again identified missing financial statement disclosures in the engagements reviewed. Pre-issuance reviews were performed on all engagements as required; however, the review team determined that checklists were not being completed as required. The review team elevated this matter to a deficiency and the systemic
cause was determined to be the failure of pre-issuance reviewers to properly complete the engagement reporting and disclosure checklists as required.

**Question 1**
Does this situation result in a repeat deficiency?

**Solution 1**
No. In a system review, a repeat is a deficiency or significant deficiency noted during the current review that was caused by the same system of quality control weakness noted in the prior review’s report. The current year deficiency is a compliance deficiency, whereas the prior review deficiency was a design deficiency. As such, it would not be deemed a repeat even though both systemic causes resulted in the same significant disclosure deficiencies.

Per PRP Section 2000, Interpretation 96n-1:

*Question* -- Paragraphs .96(n) and .122(n) of the standards instruct a team captain in a System Review (or review captain on an Engagement Review) to identify, for any deficiencies or significant deficiencies included in the report with a peer review rating of pass with deficiencies or fail, any that were also made in the report issued on the firm’s previous peer review. What further guidance is available in regards to this requirement?

*Interpretation* -- On System Reviews, a repeat is a deficiency or significant deficiency noted during the current review that was caused by the same system of quality control weakness noted in the prior review’s report. The review team should read the prior report and letter of response and evaluate whether corrective actions discussed have been implemented to determine whether the systemic cause is the same. The deficiency or significant deficiency should note that “This deficiency [or significant deficiency, as applicable] was noted in the firm’s previous peer review.”

If the corrective actions have been implemented and the same deficiency or significant deficiency is occurring, the review team, in collaboration with the firm, should determine the weakness in the firm’s system of quality control that is causing the deficiency or significant deficiency to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm’s system of quality control. If the systemic cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was caused by the same system of quality control weakness noted on a FFC form in the prior review. The team captain should consider if the firm’s planned actions to remediate the prior review findings were implemented, including implementation plans or those discussed in the firm’s response on the FFC form. If the prior remedial actions appear to be effective, the current deficiency may be caused by some other weakness in or compliance with the firm’s system of quality control. If the systemic cause of the deficiency is different from that noted in the prior review, it would not be a repeat. If the systemic cause is determined to be the same, under these circumstances, it would still be appropriate to use the same wording as previously described “This deficiency [or significant deficiency, as applicable] was noted in the
firm’s previous peer review.” If the systemic cause is the same, the review team should also consider whether there are deficiencies in other elements of quality control.

See section 3100, Supplemental Guidance, for an example of identifying repeat findings, deficiencies and significant deficiencies in a System Review.

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

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

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

A firm that repeatedly receives peer reviews with consistent deficiencies or significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. For such firms that fail to cooperate, the AICPA Peer Review Board may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm’s enrollment in the AICPA peer review program should be terminated or some other action taken. Therefore, it is critical that peer reviewers appropriately identify the systemic causes of deficiencies and significant deficiencies on System Reviews and that reporting on System and Engagement Reviews is appropriate.
CASE #7

System Reviews – Evaluation of Findings Related to a Firm’s System of Quality Control

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

Estimated Time to Complete: 10 Minutes

Note: In all of the following scenarios, the reviewer did not identify any non-conforming engagements during the review.

SCENARIO A
Firm A performed monitoring procedures in accordance with the firm’s quality control policies and procedures (QCPP) and documented its procedures, findings, significance and recommendations for corrective actions. However, during Firm A’s peer review, through corroborative inquiry, the reviewer noted that the firm did not complete corrective actions for the findings identified during the firm’s monitoring procedures. The firm responded that it was an oversight and would complete the recommended corrective actions on the next engagements, which were imminent.

Question 1
How should the team captain evaluate the monitoring issue?

Solution 1
At a minimum, the reviewer should document the non-compliance with the firm’s system of QC on an MFC.

There are various QCPP checklists:
- PRP 4500 Guidelines for Review of Quality Control Policies and Procedures for a Sole Practitioner with No Personnel
- PRP 4550 Guidelines for Testing Compliance with Quality Control Policies and Procedures for a Sole Practitioner with No Personnel
- PRP 4600 Guidelines for Review of Quality Control Policies and Procedures for Firms with Two or More Personnel
- PRP 4650 Guidelines for Testing Compliance with Quality Control Policies and Procedures for Firms with Two or More Personnel

These QCPP checklists should be evaluated the same as engagement checklists. A “no” answer should be considered in the context of the peer review and evaluated for further considerations. In this scenario, the team captain should have marked at least one answer “no” on the QCPP compliance checklist (PRP 4550 or 4650) and followed the guidance in the standards for aggregating and evaluating matters. The reviewer, in collaboration with the firm, should determine the systemic cause of the matter. Additionally, the reviewer should consider the nature, causes, pattern, and pervasiveness in determining if the matter should be elevated to a finding or deficiency.
Exhibit A and the definitions of matter, finding, deficiency, and significant deficiency are at the end of the conference case for reference.

**Question 2**
Suppose Firm A did not document the performance of any monitoring procedures; how should the team captain evaluate that issue?

**Solution 2**
At a minimum the lack of documentation of any firm monitoring should be considered a deficiency. If the monitoring is not documented, the firm cannot take credit for performing monitoring, therefore the firm was not in compliance with their system of QC.

**SCENARIO B**
While completing PRP 4650, the team captain noted Firm B’s documentation of monitoring only consisted of a handful of engagement checklists. There was no documentation of the following:
- who performed the inspection
- the process used to select engagements for internal inspection
- the evaluation of deficiencies identified on the engagements
- recommendations for remedial action related to identified deficiencies
- how the elements of the firm’s system of quality control other than engagement performance were operating effectively

Additionally, the team captain noted that the checklists used for internal inspection were not sufficiently comprehensive to identify instances of non-conformity. These matters resulted in numerous “no” answers to required monitoring procedures.

**Question 1**
How should the team captain evaluate the monitoring issues?

**Solution 1**
The lack of documentation will likely result in a deficiency in the firm’s system of quality control.
.70 a. A peer reviewer notes a matter as a result of his or her evaluation of the design of the reviewed firm's system of quality control or tests of compliance with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm's system of quality control. Matters are typically one or more "No" answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm's system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form.

b. A finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer 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 peer reviewer has concluded, due to the nature, systemic causes (see paragraph .75), pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, could create a situation in which the firm would
not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of pass with deficiencies.

d. A significant deficiency is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm’s system of quality control or compliance with it such that the reviewed firm’s system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of fail.
CASE #8

System Reviews – Systemic Causes and Repeat Findings

Consider each scenario separately related to System Reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated. This case is meant to inspire discussion. Solutions are not provided.

Estimated Time to Complete: 15 Minutes

SCENARIO A

PRP Section 1000 AICPA Standards for Performing and Reporting on Peer Reviews states:

.75 A systemic cause is a weakness in the firm’s system of quality control that allowed a matter to occur or remain undetected. Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm’s system of quality control. To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm’s system of quality control or the failure of its personnel to comply with the firm’s quality control policies and procedures. The review team should consider the relative importance of the matters to the firm’s system of quality control as a whole, including the nature, systemic causes, pattern, and pervasiveness, to determine the impact to the peer review report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.

Additionally, Section 2000 Peer Reviews Standards Interpretations states:

83-1 Question—Paragraph .83 of the standards notes that when a review team is faced with an indication that a matter(s) could be a finding, the review team’s first task in such circumstances, in collaboration with the firm, is to determine the systemic cause. Why?

Interpretation—The evaluation of a firm’s system of quality control is the primary objective of a System Review and the basis for the peer review report.

As such, when a reviewer in a System Review discovers a matter, including an engagement that was not performed or reported in conformity with applicable professional standards in all material respects, he or she should avoid considering the type of report to issue until the systemic cause of the matter (to determine if it rises to the level of a finding, deficiency or significant deficiency) is identified, where it is reasonably possible to do so.

Reviewers in a System Review must think of matters as symptoms of weaknesses in the firm’s system of quality control. Further, reviewers, in collaboration with the firm, must make a good faith effort to try to identify the systemic cause for those matters to determine if they rise to the level of a finding. A finding has a systemic definition; a finding is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. With a finding, the reviewer is considering more than just the “matter;” they are considering the condition (that is, systemic cause) that resulted in the matter(s) occurring. Otherwise said, the reviewer must determine
why the matters occurred. Upon further evaluation, a finding may rise to a systemically oriented deficiency or significant deficiency.

The system risks identified as part of the completion of the Guidelines for Review and Testing of Quality Control Policies and Procedures (sections 4500 to 4650) will be a helpful resource for reviewers in assessing the systemic cause. The assessment of the systemic cause should consider that separate matters that are exactly the same may result from completely different quality control weaknesses in the firm. To properly assess the systemic cause, reviewers should not accept “oversight” or “isolated” as the firm’s response without further investigation. Accordingly, the firm should provide sufficient detail for the reviewer to understand what caused the matter. For example, the failure to follow the firm’s practice aid for a particular area may have been an isolated occurrence; however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter. Further guidance is provided in Interpretation 84-1 to assist reviewers in determining if the matter is isolated.

**Question 1**
As a peer reviewer, what are the biggest challenges you encounter when working with a firm to determine the systemic cause?

**Question 1 Things to Think About**
- Does the firm’s size contribute to the firm’s ability to identify a systemic cause?
- Do firms that are more willing to assist in the identification of the systemic cause generally have stronger tone at the top?
- Are there certain attributes of firms that are able to identify the systemic cause of issues?
- Have you figured out any ways to ask about the systemic cause that results in the firm providing better answers?

**Question 2**
Do you believe identification of the systemic cause provides value for all firms undergoing a system review?

**Question 2 Things to Think About**
- On reviews where a specific systemic cause is identified, is the firm able to make changes to avoid the issue happening again in the future?
- Do specific systemic causes lead to implementation plans/corrective actions that have a larger impact on the future quality of the firm’s work?

**Question 3**
Do you believe there are other ways in which the peer reviewers could analyze a matter that would benefit the firm and its overall quality?

**Question 3 Things to Think About**
- Aside from looking at the elements of the firm’s system of quality control, are there different aspects of the firm that should be considered?
- Should factors other than significance and whether a matter is isolated be considered in determining the appropriate elevation?
- Do you believe any isolated matters should be elevated?
- How do you determine that a matter is isolated?
**SCENARIO B**

PRP Section 2000 *Peer Review Standards Interpretations* states:

83-2 Question—For System Reviews and Engagement Reviews, what is considered a repeat finding on a finding for further consideration (FFC) form?

Interpretation—On System Reviews, a repeat finding is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it that is noted during the current review and also on a FFC form in the prior peer review. The review team should read the prior review documentation, including the report, letter of response and FFC forms, if applicable, and evaluate whether the firm’s planned actions noted on those forms were implemented. If the firm’s planned actions to remediate the prior review findings were implemented, and the same finding is occurring, the review team should determine the condition in, or compliance with, the firm’s system of quality control that caused the current finding. If it is determined to be the same systemic cause, the FFC form should indicate that similar findings were noted in the prior review. The review team should also consider whether there are findings in other elements of quality control. If the prior remedial actions (corrective actions, implementation plans, or as discussed in the firm’s response on the FFC form) appear to be effective, the finding may be caused by some other condition in, or compliance with, the firm’s system of quality control. If the systemic cause of the finding is different from that noted in the prior review, it would not be a repeat.

**Question 1**
Do you agree with the guidance above that determining a repeat FFC should be based on the systemic cause of the finding?

**Question 1 Things to Think About**
- Is the systemic matter/issue identified more important than the systemic cause?
- Do you believe FFCs should be considered repeats if a generic systemic cause (such as misusing practice aids or human error) is identified in the prior review?

**Question 2**
Do you think there are any examples in which determining a repeat FFC should be based on the nature of the issue and not the systemic cause?

**Question 2 Things to Think About**
- Is the significance of the issue something that should be considered when deeming an FFC a repeat?
- Should the specific person responsible for remediating the issue be a factor in considering whether a finding is a repeat?
- Should the firm’s response to the finding be considered when deeming a finding a repeat?
CASE #9
System Reviews – Report Acceptance Considerations

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

Estimated Time to Complete: 10 Minutes

SCENARIO A
Firm ABC’s peer review was completed by the team captain of Firm XYZ for the year ended June 30, 2019, with the following engagements selected for review:

<table>
<thead>
<tr>
<th>Population</th>
<th>Reviewed</th>
<th>Partner</th>
<th>Engagement Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1</td>
<td>A</td>
<td>401(k) Defined Contribution Plan Audit (ERISA)</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>B</td>
<td>Other SAS – Distribution Company</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other SAS – Software development</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>C</td>
<td>Reviews (SSARS)</td>
</tr>
<tr>
<td>10</td>
<td>1</td>
<td>C</td>
<td>Compilation omit disclosures (SSARS)</td>
</tr>
</tbody>
</table>

Firm ABC has three partners and operates out of one office. The review team’s scope and engagement selection are considered adequate with a reasonable cross-section of the firm’s practice, including sufficient coverage of each partner. The team captain submitted all required documents by the firm’s due date, also noting that no ‘No’ answers resulted from the checklists evaluating the firm’s quality control policies and procedures.

The team captain drafted a pass report and issued two MFCs.

- MFC1: Failure to document a sampling approach and results of substantive procedures when detail testing revenue transactions on the distribution company audit engagement, and
- MFC2: Failure to adequately document analytical and inquiry procedures on a not-for-profit research foundation review engagement.

Firm ABC responded to the MFCs stating that it understood the requirements of professional standards, and that improved supervision and review would help to avoid the issues going forward.

The team captain noted the issues were isolated, and completed an exit conference memo to summarize other issues not carried to an MFC:

- Documentation of audit program steps related to substantive procedures can be improved by including more than a sign-off and date.
- Audit engagement documentation should include the firm’s responses to identified risks.
- As the firm has noted in its responses to MFC1 and MFC2, additional care should be applied when carrying out supervision and review responsibilities.

Due to technical reviewer comments, the team captain revised the initial submission of peer review documentation:
The peer review report was revised using singular language to reflect a single EBP engagement was selected and reviewed under ‘Required Selections and Considerations’.

The firm’s representation letter was revised with a signature from a member of management (instead of the firm name).

The SRM was revised to include third party QCM considerations as part of assessing peer review risk.

Question 1
Considering the fact pattern outlined in Scenario A and drawing from your own experience in the report acceptance process, what other questions might a technical reviewer or RAB ask 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. Anticipation of questions that may arise from technical review or RAB consideration helps to increase efficiency and effectiveness of the acceptance process, and helps to avoid reviewer performance feedback. Reviewers are reminded to leverage their experience from questions, comments, or reviewer performance feedback on previous reviews.

Based on the fact pattern above, the technical reviewer or RAB may have follow-up questions such as:

- How was the conclusion reached that the issues in MFC1 and MFC2 were isolated?
- Is there a systemic cause related to supervision and review?
- Should the engagements involving failure to comply with AU-C 230 (documentation) be deemed non-conforming and require at least an MFC?
- How did you conclude the audit engagements were conforming when the firm failed to document responses to identified risks as required by AU-C 315 and 330?
- Why is the review engagement considered conforming, when the firm failed to document its inquiry and analytical procedures?
- Did you consider performing any optional procedures related to Engagement Performance (i.e. supervision and review) when completing the checklists to evaluate the firm’s compliance with its quality control policies and procedures?

When completing peer review documentation, peer reviewers should remember to leverage their experience from questions, comments, or prior reviewer performance feedback resulting from the acceptance process.

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

Yes. 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. Please note, such documentation is ordinarily provided to the administering entity and reviewed by a technical reviewer if the review is administered by the National Peer Review Committee.

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 IV of PRP Section 3300 (RAB Handbook):

For System Reviews, the technical reviewer will ordinarily review the following documents:

1. Peer review report
2. Letter of response, if applicable
3. Prior peer review report; letter of response and Finding for Further Consideration (FFC) form, if applicable; firm representation letter and committee decision letters
4. Summary review memorandum
5. Disposition of Matter for Further Consideration (DMFC) form, as applicable
6. Matter for Further Consideration (MFC) and FFC forms, as applicable
7. Firm representation letter
8. Oversight report, as applicable
9. When the RAB has delegated the review of single audit engagement(s) to the technical reviewer(s), the engagement profile and Section 22100—Part A, Supplemental Checklist for Review of OMB Single Audit Act/A-133 Engagements, or Section 22100—Part A—UG, Supplemental Checklist for Review of Single Audit Engagements (Uniform Guidance)
10. Appendix A “Explanation of No Answers” for the PRPM Section 4500 or 4600 “Guidelines for Review of Quality Control Policies and Procedures” and 4550 or 4650 “Guidelines for Testing Compliance with Quality Control Policies and Procedures”
For reviews administered by the National Peer Review Committee (National PRC), in addition to the previously mentioned, the technical reviewer will ordinarily review all other working papers incorporated by reference and, as applicable, including engagement checklists, quality control documents and related practice aids, staff interview or focus group or other interview sessions, planning documents, and any other relevant documents.
CASE #10

System Reviews – Evaluating and Elevating “No” Answers

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

Estimated Time to Complete: 20 Minutes

SCENARIO A

A firm with three partners and eight other professionals provided the team captain with a population of engagements consisting of:

- 3 Defined contribution 401(k) plan audits,
- 8 Audits of construction contractors, and
- 4 Reviews of NFP foundations under SSARS

The team captain selected one of each engagement type, and the review team identified ‘No’ answers within the engagement checklists and the checklist for testing compliance with the firm’s system of quality control. The team captain did not identify any issues with the design of the firm’s QCPP, and prepared a summary of ‘No’ answers to assist with determining the appropriate disposition of such answers.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Engagement Type / QC Element</th>
<th>Nature of ‘No’ Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Defined Contribution 401(k) – EBP (20,700)</td>
<td>Substantive procedures were not documented related to determining whether participant investments were made in accordance with their instructions. (A202: Non-bolded)</td>
</tr>
<tr>
<td>2</td>
<td>Other SAS – Construction (20,400)</td>
<td>General audit documentation was insufficient to enable an experienced auditor to understand the nature, timing, and extent of procedures performed over revenue testing. (A318)</td>
</tr>
<tr>
<td>3</td>
<td>Review – NFP Foundation (20,300)</td>
<td>Management representation letter was dated prior to the accountant’s report. (R223)</td>
</tr>
<tr>
<td>4</td>
<td>Engagement Performance (4,650)</td>
<td>Extent of partner review of the working papers was not consistent with firm policies. (E.13)</td>
</tr>
<tr>
<td>5</td>
<td>Monitoring (4,650)</td>
<td>Inspection results not communicated to staff (F.6)</td>
</tr>
</tbody>
</table>

Regarding the issues noted, the team captain determined:

- Using professional judgment, the audit documentation failures were not significant to deem the construction or EBP audit as non-conforming.
- The management rep letter date was not materially different from the accountant’s report, and rep letters were properly dated on the other 3 review engagements.
- Inspection results regarding audit documentation issues were not communicated to staff timely.
**Question 1**
Which of the ‘No’ answers should be communicated to the firm on an MFC? What should a team captain consider when determining whether to document issues on an MFC form?

**Solution 1**
A matter may result in a system review from one or more ‘No’ answers to questions in peer review checklists that warrants further consideration in the evaluation of the firm’s system of quality control.

Remember, matters in a system review should be considered symptoms of weaknesses in the firm’s system of quality control as noted in Interpretation 83-1. Given the limited fact pattern, the issue with the management representation letter could be treated as an exit conference discussion item, and the remaining ‘No’ answers could be elevated to an MFC through application of judgment from the team captain.

Per Paragraph .70a of PRP Section 1000:
“A peer reviewer notes a matter as a result of his or her evaluation of the design of the reviewed firm’s system of quality control or tests of compliance with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm’s system of quality control. Matters are typically one or more “No” answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm’s system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form.”

**SCENARIO B**
Assume the same facts in Scenario A, with the following additional information.

Upon further discussion between the reviewer and the firm:
- Each of the ‘No’ answers were elevated to an MFC, except for the management rep letter issue that was deemed isolated and insignificant.
- Staff members assigned to audit engagements were recent hires, which resulted in more hands-on involvement from the engagement partners.
- The firm did not consistently document procedures and conclusions reached on each of the engagements reviewed.
- The firm had not communicated results from internal inspection in the previous year, which noted documentation needed improvement to evidence procedures performed and conclusions reached on some of the construction audits.

The team captain and the firm concluded the matters related to audit documentation appeared to a result of failing to comply with its QCPP that require a comprehensive partner-level review of working papers, and for the firm to communicate results of internal inspections to its staff.

**Question 1**
Which of the matters would you elevate to an FFC? What should the team captain consider when determining whether to elevate the matters to a finding?

**Solution 1**
Due to the systemic causes identified, it appears reasonable for the team captain to elevate the documentation and engagement performance matters to a finding due to insufficient partner-level review and another finding for the matters related to noncompliance with monitoring procedures.

Remember, a finding in a system review can result from failing to comply with a firm’s system of quality control, and the limited facts in this scenario suggest the partners need to perform a more comprehensive working paper review of audit documentation to help avoid the issues in the future. Furthermore, the firm should reemphasize with those responsible for inspections to ensure annual communications of inspection results as required by its QCPP.

Per Paragraph .70b of PRP Section 1000:
"A finding is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer 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 2**
Assume documentation failures in the selected construction audit were significant enough to deem it nonconforming, and the team captain determined the issues were present only on four of those engagements, which were supervised by one of the three partners.

Is it reasonable to consider a pass with deficiency(ies), or fail report rating? Discuss any assumptions and considerations, and possible deficiencies when reaching your conclusion.

**Solution 2**
**Note for discussion leaders:** Remind participants that facts and circumstances are limited and the determination of whether a deficiency or significant deficiency requires professional judgment. Therefore, answers to this question may vary using certain assumptions.

**Considerations when reaching this conclusion may include,** but are not limited to the systemic nature of the matters such as insufficient training or non-compliance with the firm’s QCPP related to monitoring, and the number of non-conforming audit engagements associated with one partner.

Remember, paragraph .72 of the standards states that a matter may develop into a finding upon aggregating and evaluating peer review results. Findings may also be elevated after being evaluated, after considering the nature, systemic cause, pattern, pervasiveness, and relative importance to the system of quality control as a whole.

Considering the systemic nature of the matters identified and the number of non-conforming construction audits associated with one partner, it appears reasonable to conclude the firm would not have reasonable assurance of performing and reporting in
conformity with applicable professional standards in certain respects. Therefore, a pass with deficiencies rating may be appropriate.

Per Paragraph .70c of PRP Section 1000:
“A deficiency is one or more findings that the peer reviewer has concluded, due to the nature, systemic causes (see paragraph .75), pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm’s system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of pass with deficiencies.”

Per Paragraph .72 of PRP Section 1000:
“…depending on the resolution of a matter and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated and, after considering the nature, systemic causes (see paragraph .75), pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency. A matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.”

Per Interpretation 79-1 of PRP Section 2000:
“A design matter or compliance with a functional area, by itself, may result in a peer review rating of pass with deficiencies or fail when one or more conditions are present in the firm’s system of quality control and the reviewer has concluded that the conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more respects.”

Question 3
Now assume documentation failures in the selected construction audit were significant enough to deem it nonconforming, and the team captain determined the issues were pervasive to all such engagements.

Is it reasonable to consider a pass with deficiency(ies), or fail report rating? Discuss any assumptions and considerations, and possible deficiencies when reaching your conclusion.

Solution 3
Note for discussion leaders: Remind participants that facts and circumstances are limited and the determination of whether a deficiency or significant deficiency requires professional judgment. Therefore, answers to this question may vary using certain assumptions.

Considerations when reaching this conclusion may include, but are not limited to the systemic causes that the firm did not comply with its monitoring QCWPP and did not perform sufficient partner-level review. Furthermore, the pervasiveness of the issue should also be considered given the significant number of non-
conforming audit engagements when compared against the firm’s body of audit
and accounting work.

Remember, paragraph .72 of the standards states that a matter may develop into a
finding upon aggregating and evaluating peer review results. Significant deficiencies
may result from deficiencies after being evaluated, after considering the nature, systemic
cause, pattern, pervasiveness, and relative importance to the system of quality control
as a whole.

Due to the number of non-conforming construction audits associated with one partner,
and pervasive nature of the documentation issues, it appears reasonable to conclude
the firm’s system of quality control taken as a whole, would not provide reasonable
assurance of performing and reporting in conformity with applicable professional
standards in all material respects. Therefore, a fail rating may be appropriate.

Per Paragraph .70d of PRP Section 1000:
“A significant deficiency is one or more deficiencies that the peer reviewer has
concluded results from a condition in the reviewed firm’s system of quality control or
compliance with it such that the reviewed firm’s system of quality control taken as a
whole does not provide the reviewed firm with reasonable assurance of
performing or reporting in conformity with applicable professional standards in all
material respects. Such deficiencies are communicated in a report with a peer rating of
fail.”

Per Paragraph .72 of PRP Section 1000:
“…depending on the resolution of a matter and the process of aggregating and
evaluating peer review results, a matter may develop into a finding. Findings will also be
evaluated and, after considering the nature, systemic causes (see paragraph .75),
pattern, pervasiveness, and relative importance to the system of quality control as a
whole, may not get elevated to a deficiency. A matter may develop into a finding and get
elevated to a deficiency. That deficiency may or may not be further elevated to a
significant deficiency.”

Per Interpretation 79-1 of PRP Section 2000:
“A design matter or compliance with a functional area, by itself, may result in a peer re-
view rating of pass with deficiencies or fail when one or more conditions are present in
the firm’s system of quality control and the reviewer has concluded that the conditions
could create a situation in which the firm would not have reasonable assurance of
performing or reporting in conformity with applicable professional standards in
one or more respects.”
CASE #11

System Reviews – Evaluation of Risks Arising from Information Technology (IT)

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

Estimated Time to Complete: 15 Minutes

**SCENARIO A**
A reviewer has selected an audit of a small manufacturing client for review during the firm’s peer review. For this engagement:
- The auditor did not rely on internal controls to reduce substantive testing
- The auditor did not use an IT specialist because the information systems of the client are not complex
- The auditor has audited this client for several years

The reviewer read the firm’s documentation related to its understanding of the entity, which included a list of the applications used by the client. The auditor compared the list obtained in the current year with the prior year’s list and determined there was an upgrade to the order management system.

**Question 1**
What other type of information should the reviewer expect to see regarding the auditor’s understanding of IT? How does this information help the firm assess risk?

**Solution 1**
The understanding of IT systems is an integral part of AU-C sec. 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.*

The following chart from the Audit and Accounting Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* table 4-1 provides the types of information a reviewer might expect to see in a firm’s working papers, and how that information helps the firm assess risk.

<table>
<thead>
<tr>
<th>Information About IT</th>
<th>How This Information Helps Assess Risk</th>
</tr>
</thead>
</table>
| List of applications (including operating system), the vendor, and version number | • Provides a general understanding of the complexity of the client’s system and the scope of your work.  
• Identifies applications that were provided by different vendors. (See paragraph 2.74 of this guide for a discussion of the risks related to the use of applications from different vendors.)  
• Comparison of information between audit periods can identify installation of new applications or upgrades to existing |
<table>
<thead>
<tr>
<th>Information About IT</th>
<th>How This Information Helps Assess Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>applications that were performed during the year.</td>
<td></td>
</tr>
<tr>
<td>Network policies such as password protocols</td>
<td>• Provide an overall understanding of the parameters the entity has established for its network and whether these fall within a typical range.</td>
</tr>
<tr>
<td></td>
<td>• Identify weaknesses that might lead to risks of fraud or error.</td>
</tr>
<tr>
<td>List of key hardware components</td>
<td>• Provides a general understanding of the overall complexity of the system.</td>
</tr>
<tr>
<td>Systems configuration diagram</td>
<td>• Provides a visual summary of the hardware and software configuration of the system.</td>
</tr>
<tr>
<td></td>
<td>• Forms a basis for the auditor’s understanding of the financial reporting process.</td>
</tr>
<tr>
<td></td>
<td>• Information about data storage can help design data extraction applications using software.</td>
</tr>
<tr>
<td>Documentation of IT general or application controls</td>
<td>• Provides information about the design of general controls such as access controls.</td>
</tr>
<tr>
<td></td>
<td>• Information about application controls can be used to design risk assessment or further audit procedures.</td>
</tr>
<tr>
<td></td>
<td>• Provides a basis for assessing changes over time that could affect performance.</td>
</tr>
<tr>
<td></td>
<td>• Provides a basis for the walk-through of the process that may be performed to confirm implementation of the control.</td>
</tr>
</tbody>
</table>

**Question 2**
What type of control should the reviewer expect to see related to the implementation of the upgraded system?

**Solution 2**
According to the Audit and Accounting Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* paragraph 4.63;

The reviewer should expect to see IT general controls such as testing upgrades before they are put into production which help maintain the integrity of information and the security of the data such systems process. The following are some examples of controls that may be found in a smaller entity.

- Secure logical access to critical applications, databases, operating systems, and networks.
- Develop controls related to significant upgrades to the IT operating system or to significant packaged applications.
- Back up critical data and programs.
• Restrict physical access to critical hardware items such as the server, telephone lines, and power supply equipment.

Question 3
What documentation should the reviewer expect to find relating to IT general controls?

Solution 3
As with all other relevant controls, on all audits you should evaluate the design of IT general controls and determine whether they have been implemented in order to assess the risks of material misstatement.

AU-C sec. 315.22 states:
In understanding the entity’s control activities, the auditor should obtain an understanding of how the entity has responded to risks arising from IT. (Ref: par. .A106–.A109)

SCENARIO B
Consider the same information in Scenario A
Now the reviewer is reading the documentation of the auditor’s evaluation of the design and implementation of controls relevant to the audit. The entity does not have a formal plan for the integration of new systems, vendor-provided version upgrades, and system modifications. The company typically relies on the software provider. The auditor did document other general controls which help to mitigate the risk.

Question 1
Given this additional information, what additional documentation should the reviewer expect to see?

Solution 1
The control deficiency should be documented in the risk assessment workpapers. The risk associated with this control deficiency should be assessed at the relevant assertion level and linked to the procedures performed to reduce the risk. The following is an example of how a work paper may look, adapted from the Audit and Accounting Guide Assessing and Responding to Audit Risk in a Financial Statement Audit Appendix K-5.

<table>
<thead>
<tr>
<th>Description of Risk</th>
<th>Sig. Risk</th>
<th>Relevant Assertion</th>
<th>Inherent risk</th>
<th>Control risk</th>
<th>Combined Risk of Material Misstatement</th>
<th>Audit Approach</th>
<th>W/P Ref.</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the year, the company installed a new version of its order management system. During upgrade, there was a potential loss or corruption of data that was</td>
<td>No</td>
<td>Accuracy</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>• Examine procedures followed by the company in implementing new system. • Compare purchase order file pre-</td>
<td></td>
</tr>
<tr>
<td>transferred from old version to new.</td>
<td>principle 11</td>
<td></td>
<td></td>
<td>implementation to post-implementation file</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CASE #12

System Reviews – Appropriateness of Firm Responses to Report Deficiencies

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

Estimated Time to Complete: 20 Minutes

SCENARIO A
Coby Black, the team captain, is performing the peer review of Little & White, LLP (the firm). This is the first peer review Mr. Black has performed that is subject to the revised peer review requirements related to the assessment of non-compliance with the Risk Assessment Standards. During the peer review, Mr. Black noted several instances where the firm failed to comply with the Risk Assessment Standards because of some misconceptions similar to those discussed in recent peer review training courses and reviewer alert articles. As such, Mr. Black concluded these engagements were “non-conforming” and because there were no other issues identified during the peer review, included these issues on FFC forms.

Question 1
In its response to the FFC form, what is the firm required to include?

Solution 1
According to Standards paragraph .99, the firm should address the following in its response with respect to each finding:

- The firm’s actions taken or planned to remediate the engagements identified on the FFC form as nonconforming.
- The firm’s actions taken or planned to remediate findings in the firm’s system of quality control
- Timing of the remediation

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

If the reviewed firm is unable to determine appropriate remediation of weaknesses in its system of quality control and nonconforming engagements, if applicable, 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 team captain of the results of its investigation, including parties consulted, and document in the FFC form, the actions planned or taken or its reasons for concluding that no action is required.
**Question 2**
Once the firm has provided its response, what requirements exist for the team captain, with respect to the FFC form, and in particular, the non-conforming engagement(s)?

**Solution 2**
According to Standards paragraph .100, the team captain should review and evaluate the firm’s responses on the FFC forms prior to the exit conference. The appropriateness of the firm’s response should be discussed during the exit conference. The team 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 response on the FFC form is for a firm to stipulate, in writing, the specific action(s) that will be taken to correct findings noted by the reviewer and, on a System Review, to enhance the current system of quality control.

Additionally, the team 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 the following professional standards:

- AU-C section 560, Subsequent Events and Subsequently Discovered Facts (AICPA, Professional Standards)
- AU-C section 585, Consideration of Omitted Procedures After the Report Release Date (AICPA, Professional Standards)

Finally, if the firm has taken action related to the non-conforming engagements, the team captain (or at least a team member) 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 team captain should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).

The peer reviewer should thoroughly document these situations in the SRM, including whether they believe the firm’s considerations support its decision and whether what, if any, monitoring action should be suggested to follow up on the remediation of the specific engagement.

**SCENARIO B**
Assume the firm responds to the issues, including the non-conforming engagements, outlined in the FFC form by stating “We’ll address these issues next year.”

**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 the relevant professional standards, in this case being:
• AU-C section 560, Subsequent Events and Subsequently Discovered Facts (AICPA, Professional Standards)
• AU-C section 585, Consideration of Omitted Procedures After the Report Release Date (AICPA, Professional Standards)

Question 2
If the firm provides a response to a finding that the team captain believes is inappropriate, should the team captain issue a deficiency?

Solution 2
Possibly. According to Interpretation No. 100-1, a firm’s failure to appropriately remediate findings, deficiencies and nonconforming engagements is a strong indicator of a tone at the top weakness and the team captain should consider whether a related deficiency is appropriate.

Discussion leaders should see if any attendees have come across this scenario and whether or not they have issued tone at the top related deficiencies.

Reviewers are reminded that firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are deemed appropriate by the team captain, it would not result in a tone at the top deficiency.

However, if the team captain identifies a pervasive failure by the firm to properly consider how to address nonconforming engagements, it may be indicative of an internal firm culture that fails to promote that quality is essential in performing engagements. In these instances, the team captain would need to document whether the firm:
• failed to comply with the leadership or tone at the top element in the firm’s system of quality control
• failed to appropriately design policies and procedures related to the leadership element in the firm’s system of quality control.

Question 3
Should the team captain instruct the reviewed firm to perform any omitted procedures in this instance?

Solution 3
No. According to Interpretation No. 67-2, reviewers or administering entities should not instruct firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. However, the administering entity 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 follow up actions the administering entity’s report acceptance body may impose, including actions to verify that the firm adheres to the intentions indicated in its response.
CASE #13

System Reviews – Writing Systemic Causes for FFCs

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

Estimated Time to Complete: 20 Minutes

SCENARIO A
This conference case will present a series of FFC descriptions and associated systemic causes. Assume each FFC is independent from the others, and based on the limited information provided, consider questions that may be asked by the next peer reviewer, a technical reviewer, or a Committee member. Recall that, most often, these individuals are only presented with this type of limited information.

For this exercise, recall paragraphs .73 and .75 of PRP Section 1000:

.73 A matter is documented on a MFC form. If the matter, after further evaluation, gets elevated to a finding but not a deficiency or significant deficiency, it is documented on a FFC form. The FFC form is a standalone document that includes the description of the finding, the systemic cause, if known (see paragraph .75), and the reviewed firm’s response regarding actions planned or taken and the timing of those actions by the firm. **The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable.** MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm’s FFC form responses for appropriateness and responsiveness (see paragraphs .141–.145) and determine whether any further action is necessary. If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is communicated in the report itself. The firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm, which is also evaluated for appropriateness and responsiveness (see paragraphs .139–.140).

.75 The team captain, in collaboration with the firm, should determine the systemic cause of matters identified. **A systemic cause is a weakness in the firm’s system of quality control that allowed a matter to occur or remain undetected. Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm’s system of quality control.** To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm’s system of quality control or the failure of its personnel to comply with the firm’s quality control policies and procedures. The review team should consider the relative importance of the matters to the firm’s system of quality control as a whole, including the nature, systemic causes, pattern, and pervasiveness, to determine the impact to the peer review report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.
Question 1
Considering the FFC documentation below, discuss what has been written well and what can be improved – including whether the reviewer has complied with peer review standards.

Reviewer’s Description of the Finding: On a broker-dealer engagement under PCAOB standards, there was a lack of documentation of pre- and post- communications with those charged with governance as required under AU-C 260.

System cause of finding: Lack of CPE.

Solution 1
Note for discussion leaders: Remind participants to focus on the objective of the case, which is writing appropriate FFC descriptions and systemic causes.

Generally, there is no right or wrong answer for any of these scenarios and certain assumptions are necessary based on limited information in the fact pattern. The suggested areas for improvement listed throughout the solutions are areas for participants to consider, and questions that can be posed to spark discussion. The revised descriptions and systemic causes are one possible solution, but there could be many variations.

The reviewer’s description includes the type of engagement and applicable standards, and some insight as to the firm’s lack of training as the systemic cause. However, the FFC does not fully comply with peer review standards, and the following are suggested areas for improvement:

- The description of the finding does not include the applicable requirement of Statements on Quality Control Standards (SQCS).
- The description indicates that the engagement was performed under PCAOB standards, but references AU-C 260 under GAAS.
- The systemic cause is not clear regarding what type of CPE is lacking.
- Overly generic or vague systemic causes make it difficult to determine if the finding(s) is a repeat, or potentially a result from a different systemic cause.

Revised Description of the Finding: The Human Resources element of Statements on Quality Control Standards requires the firm to assign appropriate personnel with the necessary competence and capabilities to perform engagements in accordance with professional standards. Due to a lack of understanding of the requirements on a broker-dealer engagement under PCAOB standards, there was a lack of documentation of pre- and post- communications with those charged with governance as required under AS 1301.

Revised systemic cause of finding: The firm has inadequate training related to required communications issued to those charged with governance.

Question 2
Considering the FFC documentation below, discuss what has been written well and what can be improved – including whether the reviewer has complied with peer review standards.
Reviewer's Description of the Finding: Testing and substantive analytics performed for revenue were not adequate; limited documentation of how selections are made; no roll forward procedures to the balance sheet date were performed for balances confirmed at an interim date. Accountants’ review report references auditor and audit standards.

System cause of finding: The firm’s quality control policies and procedures for professional development and supervision were not complied with to ensure third-party checklists and practice aids were properly utilized.

Solution 2
Note for discussion leaders: Remind participants to focus on the objective of the case, which is writing appropriate FFC descriptions and systemic causes.

Some participants may question whether this should elevate to a deficiency, or they may want to discuss which engagements are considered nonconforming. Remind participants that several factors are considered in determining whether to elevate to an FFC or deficiency. For example, pervasiveness of the issue, and this case does not provide the information necessary to make those conclusions. Depending on specific circumstances, this scenario could result in a MFC on one review, an FFC on another, and a deficiency or significant deficiency on another.

As a reminder, the suggested areas for improvement listed throughout the solutions are areas for participants to consider, and questions that can be posed to spark discussion. The revised descriptions and systemic causes are one possible solution, but there could be many variations.

The reviewer has not fully complied with peer review standards, and the following are suggested areas for improvement:
- The FFC form itself should have the engagement types listed on it, but the description is not clear what issues were found on which engagements and how many were found on any one engagement. For the revised description below, there was not enough information provided to come to this specific solution, however, it provides an illustration of identifying the engagements and issues found.
- The description does not indicate if any of the associated engagements were nonconforming.
- The description does not include a reference to SQCS, though an experienced reviewer could infer it from the systemic cause.

Revised Description of the Finding: The Human Resources and Engagement Performance elements of Statements on Quality Control Standards require the firm to assign appropriate personnel with necessary competence and capabilities to consistently perform engagements in accordance with professional standards. The firm’s quality control policies and procedures were not complied with which resulted in all audits reviewed having limited documentation of how selections were made. Testing and substantive analytics performed for revenue were not adequate on an audit of a manufacturing company, which caused the engagement to be nonconforming. On an investment company audit, no roll forward procedures to the balance sheet date were performed for balances confirmed at an interim date. The accountants’ review report
references auditor and audit standards, this resulted in the engagement being nonconforming.

Revised system cause of finding: The firm’s quality control policies and procedures for professional development and supervision were not complied with to ensure the third-party checklists and practice aids were properly utilized, understood, and properly reviewed.

**Question 3**
Considering the FFC documentation below, discuss what has been written well and what can be improved – including whether the reviewer has complied with peer review standards.

**Reviewer’s Description of the Finding:** The following matters were noted on an audit of an investment company: 1) an engagement quality control review was required by firm policy on this engagement, but it was not evident which workpapers or areas were reviewed by the engagement quality control reviewer and 2) fair value measurements were not presented in tabular format as required by GAAP.

**System cause of finding:** Engagement quality control review

**Solution 3**
As a reminder, the suggested areas for improvement listed throughout the solutions are areas for participants to consider, and questions that can be posed to spark discussion. The revised descriptions and systemic causes are one possible solution, but there could be many variations.

The reviewer’s description includes the type of engagement and the scenario that led to the finding, and some insight that insufficient EQCR procedures were the systemic cause. However, the FFC does not fully comply with peer review standards, and the following are suggested areas for improvement:

- Again, the description does not include a reference to SQCS.
- The team captain and firm should consider if something before the EQCR would be more appropriate as the systemic cause of the finding. Questions to consider are:
  1. Were staff adequately trained?
  2. Was the supervision and review of the engagement appropriate (that is, the manager and/or partner review)?
- Simply stating “EQCR” does not describe the condition in the firm’s system of quality control which resulted in the finding.

**Revised Description of the Finding:** The firm did not adequately comply with their Engagement Performance policies and procedures, which resulted in the following findings on an audit selected for review: 1) an engagement quality control review was required by firm policy on this engagement, but it was not evident which workpapers or areas were reviewed by the engagement quality control reviewer and 2) fair value measurements were not presented in tabular format as required by GAAP.

**Revised system cause of finding:** The firm did not adequately comply with their policies for engagement quality control review.
**Question 4**
Considering the FFC documentation below, discuss what has been written well and what can be improved – including whether the reviewer has complied with peer review standards.

**Reviewer’s Description of the Finding:** Reviews of engagements were perfunctory resulting in the issues noted.

**System cause of finding:** Lack of careful review.

**Solution 4**
As a reminder, the suggested areas for improvement listed throughout the solutions are areas for participants to consider, and questions that can be posed to spark discussion. The revised descriptions and systemic causes are one possible solution, but there could be many variations.

The reviewer has not fully complied with peer review standards, and the following are suggested areas for improvement:

- Again, the description does not include a reference to SQCS.
- Further, the description does not actually describe what the ‘issues noted’ were. It would appear the team captain is trying to refer to an MFC, or other peer review documents. The FFC form should stand-alone as it will be retained through the subsequent peer review. For the revised description below, there was not enough information provided to come to this specific solution, however, it provides an illustration of identifying the issues found.
- Based on the limited information provided in this FFC, it would be difficult for another team captain to determine if issues have been repeated in the firm’s subsequent peer review.

**Revised Description of the Finding:** The firm did not comply with their policies and procedures for engagement performance which resulted in engagements that did not have adequate review of work performed by staff members. The following areas of noncompliance resulted from inadequate review 1) limited documentation on expectations for substantive analytical procedures; and 2) representation letter dating that was not the same as the report date.

**Revised system cause of finding:** The firm did not adequately comply with their policies for supervision and review.
CASE #14

System Reviews – Letters of Response

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

Estimated Time to Complete: 15 Minutes

SCENARIO A
You are the team captain on a system review. The timeline for the review was:

| Period Reviewed: | 10/01/2017-9/30/2018 |
| Commencement Date: | 1/14/2019 |
| Exit Conference Date: | 3/15/2019 |
| Review Due Date: | 3/31/2019 |
| Working papers sent to AE: | 3/29/2019 |

You have determined that a pass with deficiencies report is appropriate, and the reviewed firm has submitted its letter of response for your review.

Question 1
What date should be used on the letter of response?

Solution 1
According to paragraph .100 of PRP Section 1000, the letter of response should be finalized and dated as of the exit conference date. The letter of response should be dated 3/15/2019.

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

Note that this response is the same for a letter of response associated with a fail report.

Question 2
Should the letter of response be addressed to the team captain or the administering entity?

Solution 2
The letter of response should be addressed to the peer review committee of the administering entity. When a firm’s review is administered by the National Peer Review Committee, the LOR should be addressed as such.

Paragraph .98 of PRP Section 1000 states: The firm should respond to all matters communicated on an MFC form, findings communicated on an FFC form and
deficiencies, or significant deficiencies communicated in the peer review report. The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference.

When the review is administered by the National Peer Review Committee, see footnote 1 to paragraph .212 in Appendix F, *Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Pass With Deficiencies in a System Review*, of PRP Section 1000, for an illustration of how to address the letter of response.

Note that this response is the same for a letter of response associated with a fail report.

**Question 3**

Should the letter of response be written in singular (I, me, and my) or plural (we, us, and our) terms?

**Solution 3**

The letter of response should generally be written in plural terms (we, us, and our); however, the response should use singular terms (I, me, and my) when the reviewed firm is a sole practitioner.

Appendix F, *Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Pass With Deficiencies in a System Review*, in PRP Section 1000 provides an illustration of a letter of response using plural terms. Footnote 2 in Appendix F states “the response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.”

Note that this response is the same for a letter of response associated with a fail report.

**SCENARIO B**

For Scenario B, disregard the fact pattern and timetable discussed in Scenario A.

You are the team captain on a system review and you have determined that a fail report is appropriate. You noted the following significant deficiencies in the peer review report:

**“Significant Deficiencies Identified in the Firm’s System of Quality Control”**

We noted the following significant deficiencies during our review:

1. The firm’s quality control policies and procedures regarding monitoring do not provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The firm’s quality control policies and procedures do not include an ongoing consideration and evaluation of the firm’s system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients’ financial statements for a selection of completed engagements.
2. The firm’s quality control policies and procedures are not designed or complied with to provide reasonable assurance that engagements are consistently performed in accordance with professional standards with respect to an investment company audit and a non-profit audit. We noted the following significant deficiencies:
   a. The firm lacks policies and procedures addressing new engagement acceptance to only undertake engagements for which it has the capabilities, resources, and professional competence to complete in accordance with applicable professional standards.
   b. Performance and documentation of procedures associated with sampling, risk assessment, and analytical procedures are not performed or documented in a manner so that the auditor can demonstrate to a third-party professional the procedures performed, the audit evidence examined, and conclusions reached, as required by the standards on documentation.

In our opinion, the significant deficiencies described previously contributed to an investment company audit and a non-profit audit that did not conform to professional standards in all material respects.”

You have provided the draft report to the reviewed firm along with a request for a letter of response, you have reminded them of the requirements in paragraph .99 of PRP Section 1000, which states:

.99 If the reviewed firm receives an FFC form or a report with a peer review rating of pass with deficiencies or fail, it is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. The reviewed firm should address the following in its response with respect to each finding, deficiency, and significant deficiency (see interpretations):

   a. Nonconforming engagements, including the following:
      i. The firm’s actions taken or planned to remediate the engagements identified on the FFC form or in the report as nonconforming.
      ii. The firm’s actions taken or planned to remediate findings and deficiencies in the firm’s system of quality control (see interpretations)
   b. Systemic issues unrelated to nonconforming engagements:
      i. The firm’s actions taken or planned to remediate findings and deficiencies in the firm’s system of quality control
   c. Timing of the remediation

The following is an excerpt from the firm’s initial draft of their letter of response:

“…The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

1. The firm’s system of quality control was modified to include monitoring procedures to provide it with reasonable assurance that the firm’s policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

2. The firm modified its quality control policies and procedures to require the use of practice aids to document procedures performed to assess competency for
undertaking new engagements. The practice aid is designed to ensure that the firm 1) is competent to perform the engagement and has the capabilities, including time and resources, to do so, 2) can comply with legal and relevant ethical requirements, and 3) has considered the integrity of the client.

3. The firm’s system of quality control was modified to require a CPE plan for obtaining relevant training to prepare for engagements in new industries or service areas in the client acceptance file.

The firm has recalled the audit report for the employee benefit plan audit and has hired a third party to perform a preissuance review prior to reissuing our report.

The results of our peer review were discussed in a firm-wide meeting held on July 16, 2019, and an emphasis on quality has been and will be reinforced with all engagement partners and their teams. …”

**Question 1**
The firm initially struggled with drafting the letter of response and requested your assistance. What level of involvement can you, as the team captain, have in writing the letter of response?

**Solution 1**
According to Interpretation 99-1, although it is ultimately the firm’s responsibility, the team or review captain and firm may collaborate to determine the response. In a System Review, the response will address the appropriate systemic cause and remedial actions. The team captain should provide information about risks in the firm's system of quality control (as identified through the Guidelines for Review and Testing of Quality Control Policies and Procedures in sections 4500 to 4650).

**Question 2**
What, if any, modifications would you suggest the firm make before submitting the review to the administering entity? Consider the following:
- Is item 1. in the response appropriate?
- The report describes item 2. as a single bullet with sub-bullets, but the response is broken out as two bullets (with no sub-bullets). Is that acceptable?
- Has the firm adequately addressed its responsibility to remediate the nonconforming engagements?
- Has the firm given enough specificity to the timing of remediation?

**Solution 2**
Note for discussion leader: There is no right or wrong answer, and you should remind participants that certain assumptions may be necessary when limited information is provided in the fact pattern. Discussion may include considerations outlined in paragraph .99 of PRP Section 1000.

Responses to discussion questions:

1. **Is item 1. in the response appropriate?** The firm’s response to the monitoring deficiency lacks specificity regarding its plan to remediate. The deficiency cited a lack of internal inspection of engagements, but the response does not specifically address its plan to include that in their monitoring. If the report acceptance body
does not believe the firms plan appears comprehensive, genuine, and feasible they will likely ask for additional information before accepting the review.

**Interpretation 97-1**

Question—Paragraphs .97 and .123 of the standards discuss the team captain or review captain's responsibility to review, evaluate, and comment on the reviewed firm’s letter of response prior to its submission to the administering entity. What should be considered during that review?

Interpretation—The purpose of the 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 and, on a System Review, to enhance the current system of quality control. The description of the action(s) the firm has taken or will take should ensure prevention of recurrence of the deficiency or significant deficiency discussed in the report. The action(s) should be feasible, genuine, and comprehensive. The letter of response should not be vague or repetitive of the deficiency or significant deficiency in the report, because then it is difficult to determine if the planned action will be appropriately implemented to ensure prevention; or if the action is inappropriate for correcting the deficiency or significant deficiency. The letter of response should not be used as a place to indicate justification for the firm’s actions that related to the deficiency or significant deficiency.

2. **The report describes item 2. as a single bullet with sub-bullets, but the response is broken out as two bullets (with no sub-bullets). Is that acceptable?**
   Yes, the reviewed firm’s responses can be numbered to coincide with the number of comments or deficiencies in the report, but this is optional. If no numbering is included, the firm’s responses should follow the same order as the deficiencies in the report, or be readily identifiable with the deficiency that the response is addressing.

3. **Has the firm adequately addressed its responsibility to remediate the nonconforming engagements?** While the firm’s response seems genuine, comprehensive and feasible, they have indicated they recalled an employee benefit plan audit report and the nonconforming engagements identified were related to an investment company and a non-profit audit. Team captains are reminded to review the letter of response for consistency to ensure the firm properly modified any language used from the illustrations available in PRP Section 1000.

4. **Has the firm given enough specificity to the timing of remediation?** Paragraph .99c states that the timing of remediation should be included in the letter of response. The firm did give specific timing for sharing the peer review results, however, they should be more specific in when and how they plan to obtain CPE.