

REVIEW OF AMG’S QUARTERLY FINANCIAL STATEMENTS: A SHORT CASE ABOUT AUDITOR RESPONSIBILITIES AND REQUIREMENTS

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INSTRUCTORS’ NOTES

CASE DESCRIPTION

The primary subject matter of this case concerns reviews of interim (quarterly) financial statements. More specifically, this instructional case provides students with a real world example of a failure in the review of interim financial information of a registrant client. The case has a difficulty level of four or five and is appropriate for a senior level or a graduate auditing course either online or on-ground and on an individual or team basis. The case can be completed concurrently with the coverage of other assurance services, specifically, the review of interim financial information for public companies. The case is designed to be taught in a single class period and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

Review engagements are included in the services that auditors or assurance practitioners provide and are therefore an important topic that should be covered in an auditing course. In addition, standards and requirements for reviews differ from audits, consequently students should have the opportunity to determine the requirements and make decisions relevant to a review of financial statements. This case, based in part upon a Securities and Exchange Commission’s Accounting and Auditing Enforcement Release, requires students to put themselves in the position of the accountant conducting a review of the quarterly financial statements of AMG, a manufacturer of a wide variety of products whose stock trades on an organized exchange. Students have to decide how best to conduct the review given the circumstances, and determine what type of review report, if any, to issue following the relevant Public Company Accounting Oversight Board (PCAOB) standards. The discussion questions are designed to facilitate classroom discussion; however, they can also be used as written homework assignments if classroom time is limited, or as online discussion questions in an online class.

CASE OVERVIEW

This case is based, in part, upon Securities and Exchange Commission’s (SEC’s) Accounting and Auditing Enforcement Release No. 3146 dated June 24, 2010, issued in the matter of Fei-Fei Catherine Fang, CPA, who served as the independent auditor and reviewer for Advanced Materials Group, Inc. (AMG), a manufacturing company headquartered in Garland, Texas. Ms. Fang was relatively inexperienced in auditing and reviewing financial statements for

registrants, AMG being her very first audit. The substantial quarter end sales mentioned in the case (and the corresponding receivables) recorded by AMG were false sales and were, according to the SEC (2010), part of a fraud scheme that took place at AMG during 2008 and 2009. These sales (and the corresponding receivables) were reversed in the subsequent quarter (see SEC 2010 for more details). This instructional case provides students with a real world example of a failure in the review of interim financial information of a registrant client. To answer the discussion questions, students are required to access the PCAOB's standards for review engagements (specifically AS 4105) and then determine what would have been the best course of action in this case.

SUGGESTIONS FOR CLASSROOM USE

This case may be used in a first or second auditing course concurrently with the coverage of other assurance services, specifically, the review of interim financial information for public companies. In the Arens, Elder, Beasley and Hogan (2017) auditing textbook, reviews of quarterly financial statements of public (issuer or registrant) clients are covered in Chapter 25. This case can also be used in a graduate auditing course and either online or on-ground and on an individual or team basis. The discussion questions are designed to facilitate classroom discussion; however, they can also be used as written homework assignments if classroom time is limited or as online discussion questions in an online class. The case is designed to be taught in a single class period and is expected to require two hours of outside preparation by students. This is intentional given the limited amount of time generally dedicated to reviews (especially reviews of interim financial information for public companies) versus audits.

LEARNING OBJECTIVES

This case provides students with an opportunity to apply the current PCAOB standards on reviews of interim financial information of a registrant to a specific set of facts. This helps students understand and retain the underlying concepts embodied in these standards much better than when using just the traditional lecture format. Specific learning objectives include:

1. Understanding how to decide whether to issue a review (of interim financial statements) report.
2. Understanding how to choose the appropriate type of review (of interim financial statements) report to issue given a specific set of circumstances.
3. Applying current PCAOB review standards for interim financial information to specific interim review issues.
4. Provide an alternative learning tool for students.

We include two rubrics at the end of these teaching notes to facilitate the assessment and evaluation of student responses - one rubric for the suggested discussion question responses and the other for determining whether the learning objectives are met.

SUGGESTED DISCUSSION QUESTIONS

The following suggested questions can be used by instructors as is or modified to serve their needs.

1. According to the PCAOB, what is the objective of a review of interim financial information? How does this objective differ from the objective of an audit of financial statements?
2. Under the PCAOB standards, the accountant is required to establish an understanding of the terms of an engagement with the audit committee. Why is this understanding with the audit committee required? What should this understanding generally include or in other words, what should be included and/or specified in the engagement letter for an engagement to review interim financial information?
3. What kind of procedures should be performed when conducting a review of interim financial information for a public company? Identify the similarities and differences between the reviews of interim financial information procedures for a public company versus a review of the financial statements of a private company. How do these procedures compare with the procedures typically done in an audit?
4. What concerns will you discuss with the Partner and why?
5. In this case, what would be the best course of action for you to take in order to avoid violating the relevant PCAOB interim review standards?

SOLUTIONS TO SUGGESTED DISCUSSION QUESTIONS

Question 1. According to the PCAOB, what is the objective of a review of interim financial information? How does this objective differ from the objective of an audit of financial statements?

AS 4105 covers the topic of reviews of interim (typically quarterly) financial information. Specifically, paragraph 7 (AS 4105.07) states, in part, that the objective of a “review of interim financial information...is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with the standards of the PCAOB. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with generally accepted auditing standards. A review of interim financial information does not provide a basis for expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters, and does not contemplate (a) tests of accounting records through inspection, observation, or confirmation; (b) tests of controls to evaluate their effectiveness; (c) obtaining corroborating evidence in response to inquiries; or (d) performing certain other procedures ordinarily performed in an audit” (AS 4105.07).

The SEC requires that before a company can file its 10-Q with the SEC, that the company’s external audit firm review the quarterly financial statements (Arens, Elder, Beasley, and Hogan, 2017). The objective of this review “is to provide the accountant with a basis for

communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with the standards of the PCAOB” (AS 4105.07). In contrast, the objective of an audit of the financial statements “is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles. The auditor's report is the medium through which he expresses his opinion or, if circumstances require, disclaims an opinion. In either case, he states whether his audit has been made in accordance with the standards of the PCAOB. These standards require him to state whether, in his opinion, the financial statements are presented in conformity with generally accepted accounting principles and to identify those circumstances in which such principles have not been consistently observed in the preparation of the financial statements of the current period in relation to those of the preceding period” (AS 1001.01).

Question 2. Under the PCAOB standards, the accountant is required to establish an understanding of the terms of an engagement with the audit committee. Why is this understanding with the audit committee required? What should this understanding generally include, or in other words, what should be included and/or specified in the engagement letter for an engagement to review interim financial information?

AS 4105.08, states, in part, “The accountant should establish an understanding of the terms of an engagement to review interim financial information with the audit committee or others with equivalent authority and responsibility (hereafter referred to as the audit committee). This understanding includes the objective of the review of interim financial information, the responsibilities of the accountant and the responsibilities of management. Such an understanding reduces the risk that either the accountant or the audit committee may misinterpret the needs or expectations of the other party. The accountant should record this understanding of the terms of the engagement in an engagement letter and should provide the engagement letter to the audit committee...If the accountant believes he or she cannot establish an understanding of the terms of an engagement to review interim financial information with the audit committee, the accountant should decline to accept, continue, or perform the engagement” (AS 4105.08).

According to paragraph 9 (AS 4105.09), the understanding with the audit committee should generally include “the following matters:

- The objective of a review of interim financial information is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform to accounting principles generally accepted in the United States of America.
- Management is responsible for the entity's interim financial information.
- Management is responsible for establishing and maintaining effective internal control over financial reporting.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.

- At the conclusion of the engagement, management will provide the accountant with a letter confirming certain representations made during the review.
- Management is responsible for adjusting the interim financial information to correct material misstatements. Although a review of interim financial information is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement, management also is responsible for affirming in its representation letter to the accountant that the effects of any uncorrected misstatements aggregated by the accountant during the current engagement and pertaining to the current-year period(s) under review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole.
- The accountant is responsible for conducting the review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, the accountant will not express an opinion on the interim financial information.
- A review includes obtaining sufficient knowledge of the entity's business and its internal control as it relates to the preparation of both annual and interim financial information to:
 - a. Identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
 - b. Select the inquiries and analytical procedures that will provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform to generally accepted accounting principle.
- A review is not designed to provide assurance on internal control or to identify significant deficiencies. However, the accountant is responsible for communicating with the audit committee or others with equivalent authority or responsibility, regarding any significant deficiencies that come to his or her attention” (AS 4105.09).

Question 3. What kind of procedures should be performed when conducting a review of interim financial information for a public company? Identify the similarities and differences between the reviews of interim financial information procedures for a public company versus a review of the financial statements of a private company. How do these procedures compare with the procedures typically done in an audit?

It is important for students to understand that a review of interim financial information for registrants is not the same as a review service performed following the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Accounting and Review Services (SSARS). A review of interim financial information for public companies is performed following the PCAOB's standards for such reviews (specifically AS 4105). A review service engagement performed under the SSARS issued by the AICPA can only be performed for privately held companies. The instructor should point out this distinction to students so they do not apply the AICPA's SSARS to a review of AMG's quarterly financial statements.

PCAOB AS 4105.15 states “Procedures for conducting a review of interim financial information generally are limited to analytical procedures, inquiries, and other procedures that address significant accounting and disclosure matters relating to the interim financial information to be reported. The accountant performs these procedures to obtain a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform to generally accepted accounting principles. The specific inquiries made and the analytical and other procedures performed should be tailored to the engagement based on the accountant's knowledge of the entity's business and its internal control. The accountant's knowledge of an entity's business and its internal control influences the inquiries made and analytical procedures performed. For example, if the accountant becomes aware of a significant change in the entity's control activities at a particular location, the accountant may consider (a) making additional inquiries, such as whether management monitored the changes and considered whether they were operating as intended, (b) employing analytical procedures with a more precise expectation, or (c) both” (AS 4105.15).

Paragraph 16 of AS 4105 discusses types of analytical procedures that should be conducted: “Analytical procedures, for the purposes of this section, should include:

- Comparing the quarterly interim financial information with comparable information for the immediately preceding interim period and the quarterly and year-to-date interim financial information with the corresponding period(s) in the previous year, giving consideration to knowledge about changes in the entity's business and specific transactions.
- Considering plausible relationships among both financial and, where relevant, nonfinancial information. The accountant also may wish to consider information developed and used by the entity, for example, information in a director's information package or in a senior committee's briefing materials.
- Comparing recorded amounts or ratios developed from recorded amounts, to expectations developed by the accountant. The accountant develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the accountant's understanding of the entity and the industry in which the entity operates (paragraph 17 of this section).
- Comparing disaggregated revenue data, for example, comparing revenue reported by month and by product line or operating segment during the current interim period with that of comparable prior periods” (AS 4105.16).

Paragraph 17 states “Expectations developed by the accountant in performing analytical procedures in connection with a review of interim financial information ordinarily are less precise than those developed in an audit. Also, in a review the accountant ordinarily is not required to corroborate management's responses with other evidence. However, the accountant should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the entity's business and its internal control” (AS 4105.17).

Appendix A (paragraph 54 of AS 4105) provides “examples of analytical procedures an accountant may consider performing when conducting a review of interim financial information” (AS 4105.16). These examples “...include:

- Comparing current interim financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes and pretax income in the current interim financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods).
- Comparing current interim financial information with relevant nonfinancial information.
- Comparing ratios and indicators for the current interim period with expectations based on prior periods, for example, performing gross profit analysis by product line and operating segment using elements of the current interim financial information and comparing the results with corresponding information for prior periods. Examples of key ratios and indicators are the current ratio, receivable turnover or days' sales outstanding, inventory turnover, depreciation to average fixed assets, debt to equity, gross profit percentage, net income percentage, and plant operating rates.
- Comparing ratios and indicators for the current interim period with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial information with corresponding relationships in the interim financial information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated.
 - a. By period, for example, financial statement items disaggregated into quarterly, monthly or weekly amounts.
 - b. By product line or operating segment.
 - c. By location, for example, subsidiary, division or branch.” (AS 4105.54.A1)

Specific procedures that could be used here include:

1. Compare quarterly sales for Q1 of this year to the quarterly sales of Q4 from last year as well as Q1 of last year.
2. Calculate the gross margin ratio, and compare this ratio for Q1 of this year to the ratio from Q4 from last year as well as the ratio for Q1 of last year.
3. Calculate the quick ratio, and compare this ratio for Q1 of this year to the ratio from Q4 from last year as well as the ratio for Q1 of last year.
4. Calculate the accounts receivable turnover, and compare this ratio for Q1 of this year to the ratio from Q4 from last year as well as the ratio for Q1 of last year.
5. Examine subsequent cash receipts to see if the receivables recorded at the end of Q1 were collected in cash during the second quarter or later.
6. Confirm accounts receivable: this is an audit procedure not typically done during a review. However, since your firm has just audited AMG's annual financial statements for the last year, it might be worthwhile to at least look again at the results of confirmations sent out as part of the audit procedures. In addition, confirming receivables now may help save some work at the year-end when other audit procedures will also need to be completed.

Arens, Elder, Beasley and Hogan (2017, 806-807) point out that similar to “reviews under SSARS, a public company interim review includes five requirements for review service engagements. The auditor must: (1) obtain knowledge of the accounting principles of the client's industry, (2) obtain knowledge of the client, (3) make inquiries of management, (4) perform analytical procedures, and (5) obtain a letter of representation. Also like SSARS reviews, reviews for public companies do not provide a basis for expressing positive opinion level assurance. Ordinarily, auditors perform no tests of the accounting records, independent confirmations, or physical examinations. However, the two types of reviews differ in several areas. Below are the key differences:

- Because an annual audit is also performed for the public company client, the auditor must obtain sufficient information about the client's internal control for both annual and interim financial information.
- Similarly, because the client is audited annually, the auditor's knowledge of the results of these audit procedures is used in considering the scope and results of the inquiries and analytical procedures for the review.
- Under SSARS, the auditor makes inquiries about actions taken at directors' and stockholders' meetings; for a public company, the auditor reads the minutes of those meetings.
- The auditor must also obtain evidence that the interim financial information agrees or reconciles with the accounting records for a public company interim review.”

Audit procedures extend significantly beyond just conducting analytical procedures and making inquiries of management. In an audit, the auditor is required to understand the client's system of internal controls and test this system of internal controls. For a public client, the auditor is required to issue an opinion on internal controls over financial reporting in addition to an opinion on the fairness of the financial statements. In an audit, the auditor is also required to assess fraud risk, conduct substantive tests of transactions, and tests of details of balances such as confirmation of accounts receivables (Arens, Elder, Beasley and Hogan, 2017).

Eight audit procedures typically used during an audit are (Arens, Elder, Beasley and Hogan, 2017, pages 185-192 for details):

1. Physical Examination-the inspection or count of a tangible asset by the auditor.
2. Confirmation-the receipt of a direct written response from a third party verifying the accuracy of information that was requested by the auditor.
3. Inspection/Documentation-the auditor's examination of the client's documents and records to substantiate the information in the financial statements.
4. Analytical Procedures-the evaluation of financial information through analysis of plausible relationships between financial and nonfinancial data and are required during planning and completion phases of all audits. Note that these procedures are also conducted during a SSARS review for a private company and during an interim review for a public company.
5. Inquiry-obtaining written or oral information from the client in response to auditor questions. Note that this procedure is also conducted during a SSARS review for a private company and during an interim review for a public company.
6. Recalculation-rechecking a sample of calculations made by the client.
7. Re-performance-the auditor's test of client accounting procedures or controls.

8. Observation-watching a process or procedure being performed by others.

Only two of these eight procedures, specifically, analytical procedures and inquiry are also conducted during reviews.

Question 4. What concerns will you discuss with the partner and why?

It would be best to do some additional work before you approach the Partner. For example, you should examine the sales journal and a sample of sales transactions made on account *during* Q1 (rather than at the end of Q1), to see if adequate documentation is available for your sample credit sales transactions. If you cannot find adequate documentation for these sales, then this is one point for you to discuss with the Partner.

Since the accounting manager's explanation for recording of the large quarter end sales was "that he had been too busy to send invoices to individual customers during the quarter, and thus had "caught up" at the end of the quarter by combining numerous individual sales invoices into a "few larger" sales invoices," you should check to see if this statement is true. The easiest test of the veracity of the accounting manager's explanation is to see if for sales recorded *during* Q1, invoices were sent to individual customers. If you find that the accounting manager had regularly sent out sales invoices and recorded sales for relatively small dollar amounts throughout the quarter, this would indicate that the accounting manager is lying to you. The next question you should ask yourself is why? This would also be another point to bring to the Partner's attention.

Lastly, if after waiting for a few days, no additional documentation such as purchase orders or shipping documents available for the quarter end sales is forthcoming from the client, it is also important to let the Partner know about this lack of supporting documentation. You should also share with the Partner your concerns about the trustworthiness of the accounting manager and whether you should discuss the matter with the next (higher) level of management. On the other hand, it might be better if the Partner were to approach the Chief Financial Officer (CFO) directly.

Question 5. In this case, what would be the best course of action for you to take in order to avoid violating the relevant PCAOB interim review standards?

Paragraph 28 (AS 4105.28) states, in part, "When an accountant is unable to perform the procedures he or she considers necessary to achieve the objective of a review of interim financial information, or the client does not provide the accountant with the written representations the accountant believes are necessary, the review will be incomplete. An incomplete review is not an adequate basis for issuing a review report" (AS 4105.28).

In this case, it is not possible to complete the review if *either* the appropriate documentation regarding the material quarter end sales is not provided *or* a written letter of representation is not received. Thus, the best course of action appears to be to consult with the CPA firm's attorneys and resign from this review engagement and also resign as the auditor and inform AMG's management as well as AMG's audit committee (AS 4105.31). Communications to the audit committee should be made in accordance with AS 1301. Note that some students might argue that the issues presented in this case mean that a modification to the review report is

needed. However, upon a more careful reading of AS 4105, they should conclude that it is best to resign from this review engagement.

Instructors might want to expand upon the concept of obtaining written representations from management for interim financial information by calling for students to identify the specific representations required by AS 4105.24 quoted below.

“Written representations from management should be obtained for all interim financial information presented and for all periods covered by the review. Specific representations should relate to the following matters:

Financial Statements

1. Management's acknowledgement of its responsibility for the fair presentation of the interim financial information in conformity with generally accepted accounting principles.
2. Management's belief that the interim financial information has been prepared and presented in conformity with generally accepted accounting principles applicable to interim financial information.

Internal Control

1. Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data.
2. Acknowledgment of management's responsibility for the design and implementation of programs and controls to prevent and detect fraud.
3. Knowledge of fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others where the fraud could have a material effect on the financial statements.
4. Knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

Completeness of Information

1. Availability of all financial records and related data, including the names of all related parties and all relationships and transactions with related parties.
2. Completeness and availability of all minutes of meetings of stockholders, directors, and committees of directors.
3. Communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. Absence of (1) unrecorded transactions and (2) side agreements or other arrangements (either written or oral) undisclosed to the auditor.

Recognition, Measurement and Disclosure

1. Management's belief that the effects of any uncorrected financial statement misstatements aggregated by the accountant during the current review engagement and pertaining to the interim period(s) in the current year are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. (A summary of such items should be included in or attached to the letter.)
2. Plans or intentions that may materially affect the carrying value or classification of assets or liabilities.
3. Information concerning related party transactions and amounts receivable from or payable to related parties, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.
4. Guarantees, whether written or oral, under which the entity is contingently liable.
5. Significant estimates and material concentrations known to management that is required to be disclosed in accordance with the AICPA's Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties.
6. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the interim financial information or as a basis for recording a loss contingency.
7. Unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.
8. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
9. Satisfactory title to all owned assets, liens or encumbrances on such assets, and assets pledged as collateral.
10. Compliance with aspects of contractual agreements that may affect the interim financial information.

Subsequent Events

1. Information concerning subsequent events.

The representation letter ordinarily should be tailored to include additional representations from management related to matters specific to the entity's business or industry. Appendix B [paragraph 56] of this section presents illustrative representation letters.” (AS 4105.24).

RUBRICS

APPENDIX A			
RUBRIC FOR SUGGESTED DISCUSSION QUESTIONS			
Question Number	Inadequate 0-4	Adequate 5-8	Superior 9-10
1. According to the PCAOB, what is the objective of a review of interim financial information? How does this objective differ from the objective of an audit of financial statements?	Correct objective of a review of interim financial information is not stated. The difference in objectives is not stated.	The correct objective of a review of interim financial information is stated but the difference in objectives is either not stated or only partially stated.	The correct objective of a review of interim financial information is stated and the difference in objectives is clearly stated as well.
2. Under the PCAOB standards, the accountant is required to establish an understanding of the terms of an engagement with the audit committee. Why is this understanding with the audit committee required? What should this understanding generally include, or in other words, what should be included and/or specified in the engagement letter for an engagement to review interim financial information?	No rationale is provided for why the understanding with the audit committee is required. Few of the items that should be included in the engagement letter are identified correctly.	Some rationale is provided for why the understanding with the audit committee is required. Most of the items that should be included in the engagement letter are identified correctly.	The rationale for why the understanding with the audit committee is required is clear and well supported. All of the items that should be included in the engagement letter are identified correctly.
3. What kind of procedures should be performed when conducting a review of interim financial information for a public company? Identify the similarities and differences between the reviews of interim financial information procedures for a public company versus a review of the financial statements of a private company. How do these procedures compare with the procedures typically done in an audit?	Procedures for conducting a review of interim financial statements for a public company are not identified and explained. The similarities and differences in procedures are not identified.	Some procedures for conducting a review of interim financial statements for a public company are identified and explained. Some similarities and differences in procedures are identified.	All procedures for conducting a review of interim financial statements for a public company are identified correctly and explained properly. All similarities and differences in procedures are identified.
4. What concerns will you discuss with the Partner and why?	Concerns are not identified and explained well. It is not clear how they relate to the issue with sales and receivables.	Some concerns are identified and explained. It is somewhat clear how they relate to the issue with sales and receivables.	All relevant concerns are identified and explained. It is clear how they relate to the issue with sales and receivables.
5. In this case, what would be the best course of action for you in order to avoid violating the relevant PCAOB review standards?	Appropriate courses of action not identified or supported.	Some appropriate courses of action are identified; courses of action identified not well supported.	All appropriate courses of action are clearly identified and supported.

APPENDIX B			
RUBRIC FOR LEARNING OBJECTIVES			
Learning Objectives	Inadequate 0-4	Adequate 5-8	Superior 9-10
Understanding how to decide whether or not to issue a review report on interim financial statements.	Incomplete analysis of the rationale for deciding whether or not to issue a review report on interim financial statements.	Some analysis of the rationale for deciding whether or not to issue a review report on interim financial statements.	Thorough analysis of the rationale for deciding whether or not to issue a review report on interim financial statements.
Understanding how to choose the appropriate type of review report (on interim financial statements) to issue given a specific set of circumstances.	Incomplete analysis of the rationale for choosing the appropriate type of review report (on interim financial statements).	Some analysis of the rationale for choosing the appropriate type of review report (on interim financial statements).	Thorough analysis of the rationale for choosing the appropriate type of review report (on interim financial statements).
Applying current PCAOB standards on review of interim financial information to specific review issues.	Incomplete application of PCAOB standards on review of interim financial information to specific review issues.	Some application of PCAOB standards on review of interim financial information to specific review issues.	Thorough application of PCAOB standards on review of interim financial information to specific review issues.

DISCLAIMER: These teaching notes are written using publicly available information to help instructors use the “Review of AMG’s Quarterly Financial Statements: A Short Case about Auditor Responsibilities and Requirements” in the classroom. These teaching notes are not intended to provide commentary on or evaluation of the effectiveness or appropriateness of any party’s handling of the situation described. Certain names and other information have been changed in order to highlight certain issues and in order to maintain confidentiality and privacy.

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