
EXPOSURE DRAFT

PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

Peer Reviewer Performance, Disagreements and Qualifications

November 18, 2014

Comments are requested by January 2, 2015

**Prepared by the AICPA Peer Review Board for comment from persons
interested in the
AICPA Peer Review Program**

**Comments should be received by January 2, 2015 and addressed to
Carl Mayes, Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road, Durham, NC 27707-8110
or PR_expdraft@aicpa.org**

Copyright © 2014 by
American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

Permission is granted to make copies of this work provided that such copies are for personal, intraorganizational, or educational use only and are not sold or disseminated and provided further that each copy bears the following credit line: "Copyright © 2012 by American Institute of Certified Public Accountants, Inc. Used with permission."

CONTENTS

Peer Review Board

Letter from the Chair of the Peer Review Board	2
Peer Review Board Members	3
Non-Board Standards Task Force Members	3
AICPA Staff	3

Explanatory Memorandum

Introduction	4
Background	4
Comment Period	5
Explanation of Proposed Changes	5
Guide for Respondents	6
Effective Date	6

Proposed Revisions

Peer Review Standards	7
Peer Review Standards Interpretations	12

Exhibit A

Peer Reviewer Performance, Disagreements and Qualifications: Additional Background ...	14
--	----

November 18, 2014

The AICPA Peer Review Board (Board) approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews* ("Standards").


Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Carl Mayes, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Electronic submissions of comments or suggestions should be sent to PR_expdraft@aicpa.org by January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after February 2, 2015 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards*, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* and Interpretations are struck through). The Board is not required to expose changes to the Peer Review *Standards* Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed revisions to the *Standards*.

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

A handwritten signature in black ink that reads "Anita Ford".

Anita Ford
Chair
AICPA Peer Review Board

**AICPA Peer Review Board
2014 – 2015**

Anita Ford, Chair*
James Clausell*
Michael Fawley
Lawrence Gray
Richard Hill
Richard Jones
Karen Kerber*
Michael LeBlanc
Toni Lee-Andrews
G. Alan Long*

Michael McNichols
Thomas Parry*
Andrew Pope*
Thad Porch
Robert Rohweder*
Keith Rowden
Todd Shapiro
Debra Seefeld
Thomas Whittle III

**Member—Standards Task Force*

**Non-Board Standards Task Force Members
2014 – 2015**

Jerry Cross

Heather Reimann

AICPA Staff

Susan S. Coffey
Senior Vice President
Public Practice and Global Alliances

James Brackens, Jr.
Vice President
Ethics and Practice Quality

Gary Freundlich
Technical Director
AICPA Peer Review Program

Susan Lieberum
Senior Technical Manager
AICPA Peer Review Program

Frances McClintock
Senior Technical Manager
AICPA Peer Review Program

Carl Mayes
Senior Technical Manager
Public Practice and Global Alliances

Explanatory Memorandum

Introduction

This memorandum provides background to the proposed changes to the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes would create enhanced qualifications and training requirements for reviewers of must-select engagements, expedite the process of remediation and removal for reviewers with performance issues, and improve consistency in the application of peer reviewer performance guidance.

Background

Enhanced Reviewer Qualifications

The Board has considered concerns raised by various stakeholders regarding the qualifications which reviewers are required to meet in order to review engagements that must be selected in a System Review under paragraph .63 of the Standards (must-select engagements).

The Board is proposing revisions to the Standards and related interpretations which would create enhanced qualifications and training requirements for reviewers of must-select engagements. The new guidance requires reviewers of must-select engagements to have taken current, high-quality training in the must-select industry they review; currently perform or review engagements in the must-select industry; and be practicing in an AICPA Audit Quality Center (AQC) member firm, if an Audit Quality Center serves the must-select industry¹.

Expediting Remediation and Removal of Reviewers

The Board has considered concerns raised by the peer review community and stakeholders that the current process for remediating and removing reviewers is too cumbersome and should be expedited.

The Board is recommending revisions to the Standards that would significantly reduce the amount of time a poorly performing reviewer could go before being required to complete remediation or being removed from the list of qualified reviewers. The Board is also recommending revisions to the Standards that would expedite the disagreement process. A comparison of the current and proposed processes are detailed in Exhibit A.

Improving Consistency

Through oversights and feedback from the peer review community, the Board has noted an opportunity to improve consistency in the handling of reviewer performance matters.

To promote consistency, the Board is recommending revisions that would:

¹ The requirement to be practicing in an AICPA AQC member firm is supported by historical peer review data which indicates that, when compared to AQC member firms, non-AQC member firms are at least two times more likely to have performed a materially non-conforming engagement in the areas supported by the AQC.

- Create the terms “reviewer performance deficiencies” and “significant reviewer performance deficiencies” to be applied when determining what actions should be taken when certain reviewer performance issues arise. See Exhibit A for more information about these terms.
- Make reviewer remediation and referral to the Board for removal presumptively mandatory in certain circumstances.
- Require remedial actions to be ratified nationally whenever they are imposed on a reviewer.
- Require any reviewer appeals when a deficiency letter is issued to come directly to a hearing panel formed by the Board (rather than to a panel formed by the AE peer review committee).

Other Potential Changes

The Board will explore other potential changes to Chapter 8 of the Report Acceptance Body (RAB) Handbook to promote consistency and reduce the time between the occurrence of a reviewer’s performance issue and the performance of remediation or the removal of the reviewer. Examples of changes being explored appear in Exhibit A.

Comment Period

The comment period for this exposure draft ends on January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA’s website after February 2, 2015, for a period of one year.

Explanation of Proposed Changes

Revisions to *Standards*

The proposal includes the creation of the following *Standards*:

- Paragraph .153 to incorporate the hearing process for reviewer removal into the Standards, to provide the board with the authority to hold a reviewer performance hearing with or without committee recommendation, and to describe the process for reviewers to follow when they seek to appeal

The proposed changes would revise:

- Paragraph .31 to create a requirement that reviewers of must-select engagements possess specific additional qualifications and to clarify the meaning of paragraph .31(e)
- Paragraphs .93 and .116 to expedite the disagreement process
- Paragraph .148 to introduce the terms “reviewer performance deficiency” and “significant reviewer performance deficiency”, to make reviewer remediation presumptively mandatory² in certain circumstances and to make consideration of removal presumptively mandatory when significant reviewer performance deficiencies are noted
- Paragraph .149 to require ratification of all corrective actions nationwide

² For a definition of presumptively mandatory, refer to QC sec. 10 paragraph .08.

- Paragraph .150 to clarify that conditions imposed on a reviewer will apply (not will “generally” apply) to the individual’s service as a team captain, review captain, team member or QCM reviewer
- Paragraph .151 to change it to paragraph .152 and to make referral to the Board for removal presumptively mandatory when the reviewer fails to correct reviewer performance deficiencies after undergoing corrective action or commits egregious acts. Egregious acts are defined in RAB Handbook Chapter 8.
- Paragraph .152 to change it to paragraph .151 and to eliminate the concept that corrective actions can only initially be appealed to the committee that imposed the action, as such appeals would now go directly to the Board

Revisions to Interpretations

The proposal also includes the creation of the following interpretations:

- Interpretation 31(g)-1 and 31(g)-2 to require reviewers of must-select engagements to
 - Complete additional training meeting the requirements of the Board;
 - Be presently involved in supervising or performing engagements in the must-select industry; and
 - Be associated with a firm that is a member of an Audit Quality Center, if an Audit Quality Center serves the must-select industry

The proposed changes would revise:

- Interpretation 149-1, which will be eliminated in light of the guidance revisions being proposed in paragraph .149
- Interpretation 151-1 to conform to the changes proposed in paragraph .151

Corresponding changes to the Peer Review Program Manual will be made as necessary once the final guidance is approved by the Peer Review Board.

Guide for Respondents

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to Carl Mayes, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Respondents can also direct comments and responses to PR_expdraft@aicpa.org by January 2, 2015.

Effective Date

Revisions to the *Standards* and *Interpretations* adopted as final by the Peer Review Board will be effective for reviews commencing on or after May 1, 2016.

Proposed Revisions

Peer Review Standards

Qualifying for Service as a Peer Reviewer

System and Engagement Reviewers

.31 Performing and reporting on a peer review requires the exercise of professional judgment by peers (see paragraphs 147–153 for a discussion of a reviewer’s responsibilities when performing a peer review). Accordingly, an individual serving as a reviewer on a System or Engagement Review should at a minimum:

- a. Be a member of the AICPA in good standing (that is, AICPA membership in active, non-suspended status) licensed to practice as a CPA.
- b. Be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program (see interpretations), as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities.^{3, 4} To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm’s accounting or auditing engagements or carrying out a quality control function on the firm’s accounting or auditing engagements (see interpretations).
- c. Be associated with a firm (or all firms if associated with more than one firm) that has received a report with a peer review rating of *pass*⁵ for its most recent System or Engagement Review that was accepted timely, ordinarily within the last three years and six months.⁶
- d. Possess current knowledge of professional standards applicable to the kind of practice to be reviewed, including quality control and peer review standards. This includes recent

³ ~~The board recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. These standards are not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise. For instance, in a System Review, a reviewer of auditing engagements should be currently reviewing supervising or performing auditing engagements. In an Engagement Review, a reviewer of engagements performed under the Statements on Standards for Attestation Engagements should also be currently reviewing supervising or performing the same type of engagements in their firm. A reviewer of engagements with disclosures should also be currently reviewing supervising or performing engagements with disclosures in their firm. A reviewer that only currently reviews supervises or performs compilations may not perform an engagement review of a firm with reviews or SSAE engagements~~

⁴ A manager or person with equivalent supervisory responsibilities is a professional employee of the firm who has either a continuing responsibility for the overall planning and supervision of engagements for specified clients or authority to determine that an engagement is complete subject to final partner approval if required.

⁵ ~~A peer review report with a rating of *pass* was previously referred to as an unmodified report (with or without a letter of comments). If a firm’s most recent peer review rating was a *pass with deficiencies* or *fail*, the firm’s members are not eligible to perform peer reviews.~~

⁶ ~~If a firm’s most recent review was a report review, then the firm’s members are not eligible to perform peer reviews.~~

experience in and knowledge about current rules and regulations appropriate to the level of service applicable to the industries of the engagements that the individual will be reviewing (see interpretations).

- e. Have spent the last five years ~~at least five years of recent experience~~ in the practice of public accounting in the accounting or auditing function.⁷
- f. Have provided the administering entity with information that accurately reflects the qualifications of the reviewer including recent industry experience, which is updated on a timely basis (see interpretations).

g. If the reviewer will review engagements that must be selected in a System Review under paragraph .63, possess specific additional qualifications (see interpretations).

- hg. If the reviewer is from a firm that is a provider of quality control materials (QCM) or is affiliated with a provider of quality control materials and is required to have a QCM review under these standards, be associated with a provider firm or affiliated entity that has received a QCM report with a review rating of pass for its most recent QCM review that was submitted timely, ordinarily within six months of the provider's year-end.

Team Captain or Review Captain

.32 In addition to adhering to the ~~general~~ requirements in paragraph .31(a) – (f) to be a peer reviewer, a System Review team captain must be a partner.⁸ For an Engagement Review, the review captain is not required to be a partner. The team captain, or the review captain in limited circumstances, is required to ensure that all team members possess the necessary capabilities and competencies to perform assigned responsibilities and that team members are adequately supervised. The team captain or review captain has the ultimate responsibility for the review, including the work performed by team members (see interpretations).

.33 Also, team captains and review captains should have completed peer review training that meets the requirements established by the board (see interpretations). For additional team captain qualification requirements, see the interpretations.

Other Peer Reviewer or Reviewing Firm Qualification Considerations

.34 Communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of a peer reviewer or reviewing firm's accounting and auditing practice, and notifications of limitations or restrictions on a peer reviewer or reviewing firm to practice, may impact the peer reviewer or reviewing firm's ability to perform the peer review. The peer reviewer or reviewing firm has a responsibility to inform the administering entity of such communications or notifications (see interpretations).

.35 If required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas may assist the review team in a consulting capacity (see interpretations). For example, computer specialists, statistical sampling specialists, actuaries, or experts in continuing professional education (CPE) may participate in certain segments of the review.

⁷ For this purpose, ~~recent~~ means having experience within the last five years in the industries and related levels of service for which engagements are reviewed. However, a reviewer should be cautious of those high-risk engagements or industries in which new standards have been issued. For example, in those cases in which new industry standards or practices have occurred in the most recent year, it may be necessary to have *current* practice experience in that industry ~~in order to have recent experience~~.

⁸ If the peer reviewer's firm's (see paragraph 31c) most recent peer review was an Engagement ~~or Report~~ Review, then the peer reviewer is not eligible to be a System Review team captain.

Performing System Reviews

Addressing Disagreements Between the Reviewer and the Reviewed Firm

.93 Disagreements may arise during attempts to resolve on the resolution of various issues, for instance, related to the review of particular engagements, the systemic cause of for a deficiency, or issues related to a design deficiency. In addition, there could be a disagreement on the appropriate approach to be taken in performing and/or reporting in conformity with applicable professional standards, or the review team might not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and that each party has the right to challenge each other on an issue. Nevertheless, a disagreement during on the resolution of an issue may persist in some circumstances. The reviewed firm or reviewer should be aware that they may consult with their administering entity and, if necessary, request that a panel of the administering entity's peer review committee members resolve the disagreement. The panel must reach a decision to resolve the disagreement. Any of the disagreeing parties may request an appeal by writing the board and explaining why he or she believes a review of the hearing panel's decision is warranted. A panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established. ~~If the administering entity's full peer review committee is unable to resolve the disagreement, the administering entity may refer unresolved issues to the board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists, or whether the reviewed firm or review team is not cooperating, in order for the administering entity to refer the issue to the board.~~

Performing Engagement Reviews

Addressing Disagreements Between the Reviewer and the Reviewed Firm

.116 Disagreements may arise during attempts to resolve on the resolution of various issues. For instance, there could be a disagreement on the appropriate approach to performing and/or reporting in conformity with applicable professional standards, or the review team might not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and that each party has the right to challenge each other on an issue. Nevertheless, a disagreement during on the resolution of an issue may persist in some circumstances. The reviewed firm and reviewer should be aware that they may consult with their administering entity and, if necessary, request that a panel of the administering entity's peer review committee members resolve the disagreement. The panel must reach a decision to resolve the disagreement. Any of the disagreeing parties may request an appeal by writing the board and explaining why he or she believes a review of the hearing panel's decision is warranted. A panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established. ~~If the administering entity's full peer review committee is unable to resolve the disagreement, the administering entity may refer unresolved issues to the board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists or whether the reviewed firm or review team is not cooperating in order to refer the issue to the board.~~

Peer Reviewers' Performance and Cooperation

.147 A team captain, review captain, or reviewer (hereinafter, reviewer) has a responsibility to perform a review in a timely, professional manner. This relates not only to the initial submission of the report and materials on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing any omitted documentation of the work performed on the review and resolving questions raised by the committee or technical reviewer accepting the review as well as the board and AICPA staff.

.148 In considering peer review documents for acceptance, the committee evaluates the reviewer's performance on the peer review. In addition to the committee's evaluation, the board and AICPA staff also evaluate and track reviewers' performance on peer reviews. If a pattern of reviewer performance deficiencies by a particular reviewer is noted, then the board or committee should require the reviewer to complete one or more corrective actions. If significant reviewer performance deficiencies are noted, then the board or committee should either require the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future. ~~serious weaknesses in the reviewer's performance are noted on a particular review, or if a pattern of poor performance by a particular reviewer is noted, then the board or committee, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer.~~

.149 In situations in which one or more of such actions are required ~~is imposed~~, the administering entity must inform AICPA staff and such actions will ~~will inform the board and may request that the board ratify the action(s) to be recognized by all~~ other administering entities.

.150 Any condition imposed on or action required of a reviewer will ~~generally~~ apply to the individual's participation in the performance of any peer review ~~service as a team captain, review captain, team member, or QCM reviewer unless the condition is specific to the individual's service as only a team captain, review captain, team member, or QCM reviewer,~~ respectively.

.151 If the reviewer disagrees with the corrective action(s) required by the committee or board, he or she may appeal the decision by writing the board and explaining why he or she believes that the action(s) are unwarranted. A hearing panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established.

~~.151~~**.152** If a reviewer fails to correct reviewer performance deficiencies after a corrective action has been required or has committed egregious acts in the performance of a peer review, the committee should recommend to the board that the reviewer be prohibited from performing peer reviews in the future. ~~If a reviewer refuses to cooperate with the committee or board, fails to revise peer review documents as requested by the committee or board, fails to correct the poor performance, or is found to be deficient in his or her performance, and education or other corrective or monitoring actions are not considered adequate to correct the poor performance, the committee may recommend to the board that the reviewer be prohibited from performing peer reviews in the future. In such situations imposed by a committee, the board shall appoint a hearing panel to consider ratifying the action(s) taken by the committee for the reviewer's name to be removed from the list of qualified reviewers or if some other action should be taken. The board may decide, with or without committee recommendation pursuant to fair procedures that it has established, to consider whether the reviewer should be prohibited from performing peer reviews or whether some other action should be taken.~~

.153 When a committee recommends that a reviewer should be prohibited from performing peer reviews in the future, the board shall appoint a hearing panel to consider, pursuant to fair procedures that it has established, whether the reviewer should be removed from the list of

qualified reviewers or whether some other action should be taken. The board may appoint such a hearing panel without a committee recommendation. If the reviewer disagrees with the decision of the panel, he or she may appeal the decision by writing the board and explaining why he or she believes removal from the list of qualified reviewers is unwarranted. The board will take further action pursuant to fair procedures that it has established.

~~.152 Corrective or other action(s) can only initially be appealed to the committee that imposed the action(s). For actions previously appealed to the committee or imposed or ratified by the board, if the reviewer disagrees with the corrective action(s), he or she may appeal the decision by writing the board and explaining why he or she believes that the action(s) are unwarranted. The board will review and consider the request upon its receipt.~~

.153.154 If a reviewer has a corrective or other action(s) imposed on him or her by the committee or board, and the reviewer had previously been approved to perform a peer review that has either begun or has yet to begin, then the committee or board will need to consider whether the review should be performed by another reviewer, or if the review should be overseen by a member of the committee at the reviewer's expense, or other actions, if any (whether or not the reviewer has filed an appeal with the committee or board). If the reviewer has completed the fieldwork on one or more peer reviews prior to the imposition of the corrective action, then the committee or board will consider what action, if any, to take regarding those peer reviews based on the facts and circumstances.

Peer Review Standards Interpretations

Qualifying for Service as a Peer Reviewer

31g-1 *Question*—Paragraph .31(g) of the standards states that reviewers must possess specific additional qualifications to review engagements that must be selected in a System Review under paragraph .63. What additional qualifications must the reviewer possess?

Interpretation—The additional qualifications that reviewers must possess in order to review must-select engagements are

- a. The reviewer should have completed additional training focused on must-select engagements that meets the requirements of the board. Peer review training and criteria for demonstrating proficiency in the standards, interpretations and guidance of the program is established by the board. Those criteria are located on the Peer Review page of the AICPA website.
- b. The reviewer must be currently (presently involved in) supervising or performing engagements, in his or her own firm, in the must-select industry or area; or carrying out reviews of engagements in the must-select industry or area in his or her own firm as part of the firm's monitoring or inspection process and currently meeting relevant, industry specific educational requirements, as applicable.
- c. Where AICPA Audit Quality Centers exist (such as, but not limited to, the Employee Benefit Plan and Government Audit Quality Centers), reviewers of must-select engagements must be associated with firms that are members of the respective Audit Quality Center.

31g-2 *Question*—Are there any exceptions to the additional training requirements described in 31g-1?

Interpretation—Ordinarily, the must-select training courses developed and issued by the board are to be used to meet the requirements to review must-select engagements. However, reviewers may undergo training which includes the same elements as, and is as comprehensive as, the must-select training required by the board.

Peer Reviewers' Performance and Cooperation

~~**149-1** *Question*—When one or more corrective actions are imposed on a reviewer, the administering entity will inform the board and may request that the board ratify the action(s) to be recognized by other administering entities. When can these actions be imposed by other administering entities without board ratification?~~

~~*Interpretation*—When the reviewer is notified of performance issues through deficiency letters, corrective actions or restrictions placed upon the reviewer. For reviewers who perform reviews in multiple administering entities, any corrective action or restriction included in a deficiency letter should be considered by other administering entities regarding whether they want to enforce the action or restriction on all or some reviews performed by the reviewer in their jurisdiction.~~

151-1 *Question*—When the board or committee requires the reviewer to comply with such corrective actions and the reviewer fails to correct the reviewer performance

deficiencies, poor performance or refuses to cooperate, what procedures should be followed?

Interpretation— After being provided an opportunity to improve performance, if the prescribed actions do not result in the required performance improvements, the committee or board should refer the reviewer to a hearing panel to determine whether the reviewer should be removed from the list of qualified reviewers or whether some other action should be taken. ~~The committee or board must assess if the reviewer is making a reasonable effort to improve performance. After being provided reasonable time to improve performance, if the prescribed actions are not resulting in the necessary performance improvements, the committee or board may determine that the reviewer's action warrant board consideration. If a reviewer is referred to the board, the board will consider whether the reviewer should be prohibited from performing reviews or whether some other action should be taken.~~

Exhibit A

Peer Reviewer Performance, Disagreements and Qualifications: Additional Background

Expediting Remediation and Removal of Reviewers

To illustrate the differences between the current and proposed processes for remediation and removal, assume:

- A reviewer performs one review per month
- Significant performance issues, such as failures to identify engagements which were not performed in conformity with applicable professional standards in all material respects, occur on each review and are identified by the administering entity
- There are no delays in processing the reviewer's remediation or removal

Current Process

The following process is reflective of the guidance appearing in Chapter 8 of the Report Acceptance Body Handbook.

STEP	DESCRIPTION	DAYS SINCE LAST STEP
1	Feedback form	-
2	Monitoring letter	30
3	Deficiency letter	120
	Time until remediation	150
4	Removal letter	120
5	Hearing panel decision	60
	Time until removal	330

Step 1 – The RAB issues a feedback form citing significant reviewer performance deficiencies.

Step 2 – The RAB considers the reviewer's next review 30 days later and a second significant reviewer performance deficiency is noted. The RAB issues a monitoring letter, which does not require remedial action but notifies the reviewer that improvements in their performance are required.

Step 3 – The RAB cannot issue a deficiency letter until they are presented with a review that the reviewer submitted to the administering entity after the date of the monitoring letter. Because the administering entity has 120 days to present a review to the RAB after it is submitted, this means 120 days may pass before the RAB can issue a deficiency letter, even if the RAB notes additional significant reviewer performance deficiencies in the interim period.

Step 4 – Consistent with Step 3, a removal letter cannot be issued until they are presented with a review that the reviewer submitted to the administering entity after the date of the monitoring letter. Because the administering entity has 120 days to present a review to the RAB after it is

submitted, this means 120 days may pass before the RAB can issue a deficiency letter, even if the RAB notes additional significant performance deficiencies in the interim period.

Step 5 – After the removal letter is sent to the Board, the Board will convene a hearing panel within 60 days. The decision of the hearing panel is effective immediately. If the panel concludes that a reviewer should be removed from the list of qualified reviewers, the reviewer may not schedule or perform reviews from that date forward. While the reviewer may appeal, the panel's decision remains in effect during the appeal process.

Proposed Process

STEP	DESCRIPTION	DAYS SINCE LAST STEP
1a	Feedback form	-
2a	Deficiency letter	30
	Time until remediation	30
1b	Feedback form	-
2b	Removal letter	30
3	Hearing panel decision	60
	Time until removal	90

Step 1a and 1b – The RAB issues a feedback form citing significant performance deficiencies.

Step 2a and 2b – The RAB considers the reviewer's next review 30 days later. If two significant reviewer performance deficiencies are noted, the RAB should take action to either remediate or remove the reviewer. If the RAB determines remediation is most appropriate, a deficiency letter will be issued requiring the reviewer to undergo certain corrective actions. If the RAB determines removal is most appropriate, a removal letter will be issued to the Board.

Step 3 – If a removal letter is sent to the Board, the Board will convene a hearing panel within 60 days. The decision of the hearing panel is effective immediately. If the panel concludes that a reviewer should be removed from the list of qualified reviewers, the reviewer may not schedule or perform reviews from that date forward. Administering entities should refer to paragraph .153 of the Standards along with the associated supplemental guidance in the Report Acceptance Body Handbook to address reviews that have commenced. While the reviewer may appeal, the panel's decision remains in effect during the appeal process.

Current and Proposed Processes for Disagreements

The current disagreement process appearing in Chapter 7 of the Report Acceptance Body Handbook includes four primary steps:

1. Administering entity attempts to resolve the disagreement through technical reviewer involvement and/or oversight
2. If the disagreement cannot be resolved, a panel of the AE's Peer Review Committee (PRC) considers the disagreement
3. If the panel cannot come to a decision, the AE's full PRC considers the disagreement
4. If the PRC is unable to resolve the disagreement, a panel of the Board considers the matter and reaches a final decision

The proposed guidance would require the panel of the PRC to come to a decision; eliminate step 3; and, in lieu of step 4, allow the disagreeing parties to appeal to a national ad hoc committee. The ad hoc committee's principal focus would be on the whether the Program's fair procedures were followed and applied appropriately by the AE panel.

Improving Consistency

The Board will propose revisions to the RAB Handbook whereby virtually all reviewer performance issues will be classified as either "reviewer performance deficiencies" or "significant reviewer performance deficiencies" on a reviewer feedback form. This includes suspensions for failure to submit materials timely or to maintain eligibility to perform peer reviews. The examples which will appear in the RAB Handbook will define the terms. The examples the Board expects to include are as follows:

Significant Reviewer Performance Deficiencies

- Engagement Selection and Review: The reviewer did not
 - appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects. (standards sec. 1000 System Reviews par. .66–.67; Engagement Reviews par. .109)
- Assessment and Disposition of Matters: The reviewer did not
 - appropriately aggregate or evaluate matters noted on the review (standards sec. 1000 System Reviews par. .75–.86; Engagement Reviews par. .111–.115), such that the committee determined a deficiency was present when the reviewer had not previously elevated the matter to a finding, or the committee determined a significant deficiency was present when the reviewer had not previously elevated the matter to a deficiency.

Reviewer Performance Deficiencies

- Reviewer Cooperation and Qualifications: The reviewer did not
 - perform in a timely, professional manner resulting in suspension of the reviewer's ability to schedule and/or perform reviews. (standards sec. 1000 par. .147)
 - maintain the required reviewer qualifications resulting in restriction of the reviewer's ability to schedule and perform reviews. (standards sec. 1000 par. .31 and .34)
- Planning: The reviewer did not
 - obtain approval of the review team prior to the planning and commencement of the peer review (standards sec. 1000 par. .30)
 - obtain an understanding of the firm's accounting and auditing practice or system of quality control when performing a peer review resulting in the need to perform additional work after the review working papers were submitted to the administering entity. This would also include failure to address significant differences between the background information provided to the administering entity during scheduling and the information that the firm provides to the reviewer, with a significant difference defined as one that would have affected peer review planning or procedures. (standards sec. 1000. par. .41–.45)
 - adequately document a comprehensive risk assessment for the system review, and additional clarification was necessary after the review working papers were submitted to the administering entity. (standards sec. 1000 par. .49–.50)

- Engagement Selection and Review: The reviewer did not
 - select a sufficient or appropriate scope of engagements for review in accordance with guidance. This includes selecting too many engagements on an engagement review. (standards sec. 1000 System Reviews par. .53–.63; Engagement Reviews par. .104–.109)
 - properly select the “surprise” engagement and did not provide sufficient documentation of reasoning for selection. (standards sec. 1000 par. .61)
- Assessment and Disposition of Matters: The reviewer did not
 - identify matters, findings, deficiencies, or significant deficiencies appropriately but responded timely to requested revisions. (standards sec. 1000 System Reviews par. .70; Engagement Reviews par. .110)
 - appropriately dispose of matters noted on the review or properly complete the DMFC form. (standards sec. 1000 System Reviews par. .72–.74; Engagement Reviews par. .112–.114)
 - properly consider or document the need to expand scope to other engagements or functional areas. (standards sec. 1000 par. .68 and Interpretation 84-1)
 - appropriately aggregate or evaluate matters noted on the review. (standards sec. 1000 System Reviews par. .75–.86; Engagement Reviews par. .111–.115)
- Completion of FFC Forms: The reviewer did not
 - systemically write findings in a System Review. (standards sec. 1000 par. .83)
 - sufficiently complete or write FFC forms. (System Reviews sec. 4960; Engagement Reviews sec. 6600)
 - properly identify a repeat finding. (Interpretation 83-2)
 - provide proper recommendations to the firm to sufficiently address the findings. (System Reviews sec. 4960; Engagement Reviews sec. 6600)
- Reporting: The reviewer did not
 - properly identify a repeat deficiency. (standards sec. 1000 System Reviews par. .96; Engagement Reviews par. .122n)
 - provide sufficient peer review working papers or documentation to support the report rating. (standards sec. 1000 System Reviews par. .87–.90; Engagement Reviews par. .117–.119)
 - systemically write deficiencies in a system review report, and a revision was required. (standards sec. 1000 par. .96m)
 - “close the loop” when reporting on deficiencies in a system review. (standards sec. 4200.54g)
 - provide proper recommendations to the firm to sufficiently address the deficiencies noted in the peer review report. (standards sec. 1000 System Reviews par. .96m; Engagement Reviews par. 122m)
 - represent the report in standard form in accordance with peer review guidance, or significant revisions to the report were needed. (standards sec. 1000 System Reviews par. .96; Engagement Reviews par. 122)
- Completion and Submission of Workpapers: The reviewer did not
 - comprehensively complete peer review documentation, or the documentation required revisions. (standards sec. 1000 par. .24)
 - properly report engagement statistics or did not properly discuss in other peer review practice aids when it was determined that the engagement was not performed or reported on in conformity with professional standards in all material respects. This also includes consideration of the reviewed firm’s response to such an engagement in accordance with professional standards. (Interpretation 66-1)

- Other departures from *Standards for Performing and Reporting on Peer Reviews* or other authoritative program guidance.

Other Potential Changes

In addition to the changes to *Standards* and Interpretations appearing in these materials, the Board will explore other potential changes to Chapter 8 of the RAB Handbook to promote consistency and reduce the time between when a reviewer's performance issues occur and when remediation or removal is required. These are expected to include:

- Requiring a feedback form to be issued when one of the reviewer performance deficiencies on the form is noted during an oversight, technical review or the RAB acceptance process
- Define the period over which reviewer performance deficiencies will be considered
- Requiring administering entities to upload all feedback forms to a web-based platform
- Developing a clear process whereby a designee of the Board (for example, the Oversight Task Force), after discussing the matter with administering entities, could issue a deficiency letter or removal letter
- Defining "a pattern of reviewer performance deficiencies" (described in the proposed paragraph .148)
- Developing a process for reviewer reinstatement such that three years after a reviewer has been removed from the list of qualified reviewers, they may petition for reinstatement
- When a reviewer self-identifies performance issues evident on reviews that have been submitted to an administering entity but not yet been subject to technical review, allowing for that reviewer to address the issues without receiving feedback.
- When a reviewer appeals a corrective or other action, requiring the reviewer to comply with the decision of the appeal panel within a certain period of time or be removed from the list of qualified reviewers