PRP Section 1000
AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS
Effective for Peer Reviews Commencing on or After January 1, 2009
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In order to be admitted to or retain their membership in the AICPA, members of the AICPA who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program or, if practicing in firms not eligible to enroll, are themselves enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA’s practice-monitoring standards and the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

Firms have peer reviews because of the public interest in the quality of the accounting, auditing, and attestation services provided by public accounting firms. In addition, firms indicate that peer review contributes to the quality and effectiveness of their practices. Furthermore, most state boards of accountancy require its licensees to undergo peer review, which they may also call compliance assurance, to practice in their state. Other regulators require peer review in order to perform engagements and to issue reports under their standards.

A firm (or individual) enrolled in the AICPA Peer Review Program is deemed to be enrolled in an approved practice-monitoring program. See BL sections 230, 2.3 Requirements for Retention of Membership, 220, 2.2 Requirements for Admission to Membership, and 760, 7.6 Publication of Disciplinary Action (AICPA, Professional Standards, vol. 2); AICPA Code of Professional Conduct Rule 505, Form of Organization and Name (AICPA, Professional Standards, vol. 2, ET sec. 505); and the implementing council resolutions under those sections.

These standards are applicable to firms (and individuals) enrolled in the program and to individuals and firms who perform and report on such peer reviews, to entities approved to administer the peer reviews, and to associations of CPA firms authorized by the AICPA Peer Review Board to assist its members in forming review teams. These standards are not intended for peer reviews of organizations that are not public accounting firms.

Users of these standards should be knowledgeable about the standards and their interpretations and effective dates, as well as guidance issued by the board that might affect the application of these standards. Those subject to the standards should be prepared to justify departures from these standards, and it is expected that departures will be rare.

These standards are effective for peer reviews commencing on or after January 1, 2009. Early implementation of these standards is not permitted.

Overview

Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews (as Referred to in a Peer Review Report)

.01 The purpose of this document is to provide standards for administering, planning, performing, reporting on and the acceptance of peer reviews of CPA firms (and individuals) enrolled in the AICPA Peer Review Program (see interpretations). Those processes collectively are also called practice monitoring because it is the monitoring of a CPA firm’s accounting and auditing practice.

.02 The goal of practice monitoring, and the program itself, is to promote quality in the accounting and auditing services provided by the CPA firms (and individuals) subject to these standards. This goal serves the public interest and enhances the significance of AICPA membership.
.03 Firms (and individuals) (see interpretations) enrolled in the program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-Securities and Exchange Commission (SEC) issuers covering a one-year period. The peer review is conducted by an independent evaluator known as a peer reviewer. The AICPA oversees the program, and the review is administered by an entity approved by the AICPA to perform that role.

.04 There are two types of peer reviews: System Reviews and Engagement Reviews. System Reviews focus on a firm’s system of quality control, and Engagement Reviews focus on work performed on selected engagements. A further description of these peer reviews as well as a summary of the nature, objectives, scope, limitations of, and procedures performed in them is included in appendix A.

Introduction and Scope

.05 Firms (and individuals) (see interpretations) enrolled in the program have the responsibility to:

a. Design and comply with a system of quality control for its accounting and auditing practice that provides the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Statement on Quality Control Standards (SQCS) No. 7, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*, vol. 2, QC sec. 10), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice.

b. Perform accounting and auditing engagements in accordance with applicable professional standards using competent personnel.¹

c. Have independent peer reviews of their accounting and auditing practices (see interpretations). All firms that an AICPA member is associated with should undergo a peer review if the services performed and reports issued by the firm require a peer review.

d. Engage a peer reviewer to perform the peer review in accordance with these standards, in a timely manner.

e. Take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken.

f. Provide written representations to describe matters significant to the peer review (see appendix B “Considerations and Illustrations of Firm Representations”).

g. Understand the AICPA Peer Review Board’s guidance on resignations from the program (see interpretations).

h. Cooperate with the peer reviewer, administering entity, and the board in all matters related to the peer review including arranging, scheduling, and completing the review and taking remedial, corrective actions and implementing other plans as needed (see interpretations).

.06 An accounting and auditing practice for the purposes of these standards is defined as all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)² (see interpretations); Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).

.07 The objectives of the program are achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform engagements under the SASs or Government Auditing Standards, examinations of prospective financial statements under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB have peer reviews called System Reviews. A System Review includes determining whether the firm’s system of quality control for its accounting and auditing practice is

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¹ Personnel are defined per SQCS as all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs

² Statements on Standards for Accounting and Review Services that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes (see interpretations).
Standards for Performing and Reporting on Peer Reviews

designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS No. 7, in all material respects. Firms that only perform services under SSARS or services under the SSAEs not included in System Reviews have peer reviews called Engagement Reviews.3 Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the PCAOB, are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, these standards are not intended for and exclude the review of the firm’s accounting and auditing practice applicable to SEC issuers. Firms that do not provide any of the services listed in paragraph 6 are not peer reviewed.

.08 The majority of the procedures in a System Review should be performed at the reviewed firm’s office (see interpretations). Engagement Reviews are normally performed at a location other than the reviewed firm’s office.

.09 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. On System Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. On Engagement Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified in engagements. These actions will be positive and remedial. Disciplinary actions (including those that can result in the termination of a firm’s enrollment in the program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners⁴ and employees) will be taken only for a failure to cooperate, failure to correct inadequacies, or when a firm is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

.10 Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with the AICPA’s peer review requirements.

General Considerations

Administrative Requirements

.11 All peer reviews intended to meet the requirements of the program should be carried out in conformity with these standards under the supervision of a state CPA society, group of state CPA societies, the AICPA Peer Review Board’s National Peer Review Committee (National PRC) (see interpretations), or other entity (hereinafter, administering entity) approved by the board to administer peer reviews.

.12 Peer reviews, including the reviewed firm and peer reviewers, are subject to oversight by the administering entity. In addition, peer reviews and administering entities are subject to oversight by the board and other bodies agreed upon by the board and/or the administering entity. The objectives of oversight are to ensure compliance with the standards and consistency in implementation. Reviewed firms, peer reviewers, and administering entities are expected to cooperate during the oversight process.

Timing of Peer Reviews

.13 A firm’s due date for its initial peer review is ordinarily 18 months from the date it enrolled in the program or should have enrolled, whichever date is earlier (see interpretations).

.14 A firm does not undergo a peer review if it does not perform engagements requiring it to undergo a peer review (see paragraph 7). However, when a firm performs its first engagement requiring a peer review or its first engagement requiring it to have a System Review, the firm’s next due date ordinarily will be 18 months from the year-end of that engagement (18 months from the report date if it is an attestation engagement, including financial forecasts and projections) (see interpretations).

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3 Although standards no longer permit the performance of Report Reviews as of January 1, 2009, a firm’s last peer review could have been a Report Review.

4 A partner is a proprietor, shareholder, equity or nonequity partner, or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned. Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as shareholder, member, or proprietor.
A firm’s subsequent peer review ordinarily has a due date of three years and six months from the year-end of the previous peer review.

The due date for a peer review is the date by which the peer review report, and if applicable, letter of response, and the peer reviewer’s materials are to be submitted to the administering entity.

Peer reviews must cover a current period of one year to be mutually agreed upon by the reviewed firm and the reviewing firm. Ordinarily, the peer review should be conducted within three to five months following the end of the year to be reviewed.

A firm is expected to maintain the same year-end on subsequent peer reviews (which is three years from the previous year-end) and the same review due date (which is three years from the previous review due date) (see interpretations).

If a firm resigns from the program and subsequently reenrolls in the program, the firm’s due date is the later of the due date originally assigned or 90 days after reenrolling.

Confidentiality

A peer review should be conducted in compliance with the confidentiality requirements set forth in the section of the AICPA Code of Professional Conduct Rule 301, Confidential Client Information (AICPA, Professional Standards, vol. 2, ET sec. 301). Except as discussed in paragraph 146, information concerning the reviewed firm or any of its clients or personnel that is obtained as a consequence of the review is confidential. Such information should not be disclosed, except as required by law, by review team members or by administering entities to anyone not involved in performing the review, or administering or carrying out the program, or used in any way not related to meeting the objectives of the program.

Independence, Integrity, and Objectivity

Independence in fact and in appearance should be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review (see interpretations). In addition, the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities.

Independence encompasses an impartiality that recognizes an obligation for fairness not only to the reviewed firm but also to those who may use the peer review report. The reviewing firm, the review team, and any other individuals who participate on the peer review should be free from any obligation to, or interest in, the reviewed firm or its personnel. The concepts in the AICPA Code of Professional Conduct’s Article III—Integrity and Article IV—Objectivity and Independence (AICPA, Professional Standards, vol. 2, ET sec. 54 and 55), should be considered in making independence judgments. Integrity requires the review team to be honest and candid within the constraints of the reviewed firm’s confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Objectivity is a state of mind and a quality that lends value to a review team’s services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.

Due Professional Care

Due professional care, as addressed by the AICPA Code of Professional Conduct’s Article V—Due Care (AICPA, Professional Standards, vol. 2, ET sec. 56), should be exercised in performing and reporting on the review. This imposes an obligation on all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner (see interpretations).

Peer Review Documentation and Retention Policy

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 (see interpretations).

.25 Peer review documentation should not be retained for an extended period of time after the peer review’s completion, with the exception of certain documents that are maintained until the subsequent peer review’s acceptance and completion (see interpretations).

Organizing the System or Engagement Review Team

.26 A System Review team comprises one or more individuals, depending upon the size and nature of the reviewed firm’s practice and other factors. An Engagement Review team ordinarily comprises one individual. A review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or an association of CPA firms authorized by the board to assist its members in forming review teams (an association formed review team) (see interpretations). For Engagement Reviews, review teams may also be formed by the administering entity if it chooses to appoint such teams (hereinafter, a committee-appointed review team, also known as a CART review).

.27 A reviewing firm (including for these purposes the team captain, for an association formed review team) must determine its capability to perform a peer review. This determination includes assigning peer reviewers with appropriate levels of expertise and experience to perform the review. Before accepting a peer review engagement, the reviewing firm should obtain and consider information about the firm to be reviewed, including certain operating statistics concerning size, nature of practice, industry specializations, and levels of service.

.28 In determining its capability to perform the review, the reviewing firm should consider the size of the firm to be reviewed in relation to its own size. A reviewing firm must recognize that the performance of a peer review may demand substantial commitments of time, especially from its supervisory accounting and auditing personnel. Therefore, a reviewing firm should consider carefully the number and availability of its supervisory personnel in determining whether it can perform a peer review of another firm.

.29 One member of the System Review team is designated the team captain. The individual performing an Engagement Review is designated the review captain. The team captain or review captain is responsible for supervising and conducting the review, communicating the review team’s findings to the reviewed firm and to the administering entity, preparing the report on the review, and ensuring that peer review documentation is complete and submitted to the administering entity on a timely basis. If applicable, the team captain, or review captain in unusual circumstances, should supervise and review the work performed by other reviewers on the review team to the extent deemed necessary under the circumstances.

.30 A System Review team, a review captain on an Engagement Review and, in unusual circumstances any additional reviewers on an Engagement Review, ordinarily should be approved by the administering entity prior to the planning and commencement of the peer review (see interpretations).

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, nonsuspended 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 equiva-
lent supervisory responsibilities.\textsuperscript{5, 6} 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.

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\textsuperscript{7} for its most recent System or Engagement Review that was accepted timely, ordinarily within the last three years and six months (see interpretations).\textsuperscript{8}

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 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 at least five years of recent experience in the practice of public accounting in the accounting or auditing function.\textsuperscript{9}

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).

\textbf{Team Captain or Review Captain}

\textsuperscript{.32} In addition to adhering to the general requirements in paragraph 31 to be a peer reviewer, a System Review team captain must be a partner.\textsuperscript{10} 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).

\textsuperscript{.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.

\textbf{Other Peer Reviewer or Reviewing Firm Qualification Considerations}

\textsuperscript{.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).

\textsuperscript{5} 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 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 or performing the same type of engagements.

\textsuperscript{6} 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.

\textsuperscript{7} A peer review report with a rating of pass\textsuperscript{7} 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.

\textsuperscript{8} If a firm’s most recent review was a report review, then the firm’s members are not eligible to perform peer reviews.

\textsuperscript{9} 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.

\textsuperscript{10} 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.
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. For example, computer specialists, statistical sampling specialists, actuaries, or experts in continuing professional education (CPE) may participate in certain segments of the review.

Performing System Reviews

Objectives

A System Review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review:

a. The reviewed firm’s system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA (see SQCS No. 7).

b. The reviewed firm’s quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

A System Review is designed to test a reasonable cross section of the firm’s engagements with a focus on high-risk engagements, in addition to significant risk areas where the possibility exists of engagements not being performed and/or reported on in conformity with applicable professional standards in all material respects. A System Review is not designed to test every engagement or compliance with every professional standard and every detailed component of the firm’s system of quality control.

Basic Requirements

A System Review should include, but not be limited to, the following procedures:

a. Planning the review, as follows:
   1. Obtain the results of the prior peer review (see paragraph 39).
   2. Inquire of the firm about the areas to be addressed in the written representations (see paragraph 40).
   3. Obtain a sufficient understanding of the nature and extent of the firm’s accounting and auditing practice to plan the review (see paragraphs 41–45).
   4. Obtain a sufficient understanding of the design of the firm’s system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review (see paragraphs 41–45).
   5. Assess peer review risk (see paragraphs 46–52).
   6. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed and to determine the nature and extent of the tests to be applied in the functional areas (see paragraphs 53–63).

b. Performing the review, as follows:
   1. Review the firm’s design and compliance with its system of quality control. The review should cover all organizational or functional levels within the firm (see paragraphs 53–54).
   2. Review significant risk areas on selected engagements, including the relevant accounting, audit, and attestation documentation and reporting (see paragraphs 64–65).
   3. Conclude on the review of engagements (see paragraphs 66–67).
   4. Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary (see paragraph 68).
   5. Determine the relative importance of matters (see paragraphs 69–72).
   6. Prepare the Matter for Further Consideration (MFC) forms, Disposition of MFC (DMFC) forms, and any related Finding for Further Consideration (FFC) forms (see paragraphs 73–74).
7. Aggregate and systemically evaluate the matters (see paragraphs 75–86).
8. Form conclusions on the type of report to issue (see paragraphs 87–90).
9. Obtain the written representations from the reviewed firm (see paragraph 5(f) and appendix B).
10. Conduct an exit conference with senior members of the reviewed firm to discuss the review team’s comments; matters, findings, deficiencies, and significant deficiencies identified; recommendations; MFCs and related FFCs; and the type of report to be issued and the deficiencies or significant deficiencies to be included in such report and to resolve any disagreements (see paragraphs 91–92).
11. Prepare a written report on the results of the review (see paragraphs 94–96).
12. Review and provide comments to the reviewed firm on its response to the report, if applicable (see paragraphs 97–101).

Planning Considerations

.39 To assist the review team in the planning of the review, the team captain should obtain the prior peer review report,11 the letter of response, if applicable, and the letter of acceptance, all from the reviewed firm. The team captain should also obtain the prior FFC forms, if applicable (from the administering entity if the team captain’s firm did not perform the prior peer review). The team captain should consider whether the issues discussed in those documents require additional emphasis in the current review and, in the course of the review, should evaluate the actions of the firm in response to the prior report.

.40 The reviewer should inquire of the firm regarding the areas to be addressed in the written representation (see paragraph 5(f) and appendix B) and consider whether the areas discussed require additional emphasis in the course of the review (see interpretations).

Understanding the Firm’s Accounting and Auditing Practice and System of Quality Control

.41 The review team should obtain a sufficient understanding of the nature and extent of the reviewed firm’s accounting and auditing practice to plan the review. This understanding should include knowledge about the reviewed firm’s organization and philosophy, as well as the composition of its accounting and auditing practice.

.42 The review team should also obtain a sufficient understanding of the reviewed firm’s system of quality control with respect to each of the quality control elements in SQCS No. 7 to plan the review (see interpretations). SQCS No. 7 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm (the “tone at the top”); relevant ethical requirements (such as independence, integrity and objectivity); acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring. It also states that the nature, extent, and formality of a firm’s quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm’s size, the number of its offices, the degree of operating autonomy allowed its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm’s practice, and appropriate cost-benefit considerations.

.43 The understanding obtained by the review team should include knowledge about the design of the reviewed firm’s quality control policies and procedures in accordance with quality control standards established by the AICPA and how the policies and procedures identify and mitigate risk of material noncompliance with applicable professional standards.

.44 The understanding of the firm’s accounting and auditing practice and system of quality control is ordinarily obtained through such procedures as inquiries of appropriate management and other personnel, reviewing the firm’s internal policies and procedures, and reviewing the firm’s responses to questionnaires developed by the board.

.45 The review team should obtain a sufficient understanding of the reviewed firm’s monitoring policies and procedures since its last peer review and their potential effectiveness. In doing so, the review team may determine that the

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11 And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.
firm’s current year’s internal monitoring procedures could enable the review team to reduce, in a cost-beneficial manner, the number of offices and engagements selected for review or the extent of the other testing (see interpretations).

**Understanding and Assessing Peer Review Risk Factors**

.46 Just as the performance of an audit involves audit risk, the performance of a System Review involves peer review risk. Peer review risk is the risk that the review team:

a. Fails to identify significant weaknesses in the reviewed firm’s system of quality control for its accounting and auditing practice, its lack of compliance with that system, or a combination thereof.

b. Issues an inappropriate opinion on the reviewed firm’s system of quality control for its accounting and auditing practice, its compliance with that system, or a combination thereof.

c. Reaches an inappropriate decision about the matters to be included in, or excluded from, the report.

.47 Peer review risk consists of the following two parts:

a. The risk (consisting of *inherent risk* and *control risk*) that an engagement will not be performed and/or reported on in conformity with applicable professional standards in all materials respects, that the reviewed firm’s system of quality control will not prevent such failure, or both.  

b. The risk (detection risk) that the review team will fail to detect and report on the design and/or compliance deficiencies or significant deficiencies in the reviewed firm’s system of quality control.

.48 Inherent risk and control risk relate to the reviewed firm’s accounting and auditing practice and its system of quality control. These risks may be affected by circumstances arising within the firm (for example, individual partners have engagements in numerous specialized industries or the firm has a few engagements constituting a significant portion of the firm’s accounting and auditing practice) or outside the firm (for example, new professional standards being applied for the first time or adverse economic developments in an industry).

**Assessing Peer Review Risk**

.49 In planning the review, the review team should use the understanding it has obtained of the reviewed firm’s accounting and auditing practice and its system of quality control to assess the inherent and control risks. The assessment of risks is qualitative and not quantitative. The lower the inherent and control risk, the higher the detection risk that can be tolerated and vice versa. Based on its assessment of inherent and control risk, the review team determines the acceptable level of detection risk.

.50 When assessing risk, the review team should evaluate the reviewed firm’s quality control policies and procedures over its accounting and auditing practice in relation to the requirements contained in SQCS No. 7. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

**Relationship of Risk to Scope**

.51 The review team should consider the combined assessed levels of inherent and control risk when selecting offices and engagements to be reviewed. The higher the combined assessed levels of inherent and control risk, the higher the peer review risk. To reduce the peer review risk to an acceptable low level, the detection risk needs to be low, and thus the greater the scope (that is, the greater the number of offices that should be visited or the greater the number of engagements that should be reviewed, or both). Conversely, the lower the combined assessed levels of inherent and control risk, the smaller the scope that needs to be considered for review. The combined assessed levels of

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12 *Inherent risk* is the likelihood that an accounting or auditing engagement will fail to conform to professional standards, assuming the firm does not have a system of quality control.

13 *Control risk* is the risk that a firm’s system of quality control will not prevent the performance of an engagement that does not conform to professional standards. It consists of two parts: the firm’s control environment and its quality control policies and procedures. The control environment represents the collective effort of various factors on establishing, enhancing, or mitigating the effectiveness of specific quality control policies and procedures. The control environment reflects the overall attitude, awareness, and actions of firm management concerning the importance of quality work and its emphasis in the firm.
inherent and control risk may vary among offices and engagements so that the scope may be greater for some types of offices and engagements than for others.

.52 However, even when the combined assessed levels are low, the peer review team must review some engagements to obtain reasonable assurance that the reviewed firm is complying with its quality control policies and procedures and applicable professional standards. For the review team to obtain such assurance, a reasonable cross section of the reviewed firm’s accounting and auditing engagements must be reviewed or inspected, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk (see interpretations).

Planning and Performing Compliance Tests

.53 After performing the aforementioned planning procedures, the team captain should then develop a general plan for the nature and extent of conducting compliance tests of engagements (to directly test the “engagement performance” element in SQCS No. 7) and the other elements described in SQCS No. 7 (collectively referred to as the functional areas). The compliance tests should be tailored to the practice of the reviewed firm and, taken as a whole, should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed firm’s system of quality control was complied with to provide the firm with reasonable (not absolute) assurance of performing and reporting in conformity with applicable professional standards in the conduct of its accounting and auditing practice in all material respects.

.54 Such tests should be performed at the practice office(s) visited and should relate to individual engagements and the functional areas. The tests should include the following:

a. Review significant risk areas (see paragraph 65) on selected engagements, including accounting and auditing documentation, and reports, to evaluate whether the engagements were performed and reported on in conformity with applicable professional standards and in compliance with relevant firm quality control policies and procedures.

b. Interview firm personnel at various levels and, if applicable, other persons responsible for a function or activity to assess their understanding of, and compliance with, the firm’s quality control policies and procedures.

c. Review evidential material to determine whether the firm has complied with its policies and procedures for monitoring its system of quality control.

d. Review other evidential material as appropriate. Examples include selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with human resource requirements, and the firm’s technical reference sources (see interpretations).

Scope Limitations

.55 There is a presumption that all engagements and all aspects of functional areas otherwise subject to the peer review will be included in the scope of the review. However, in the rare situations when exclusions or other limitations on the scope of the review are being contemplated, a reviewer should carefully consider the implications of such exclusion. This includes communicating to the firm and the administering entity the effect on the review and on the ability of the reviewer to issue a peer review report (see interpretations).

Selection of Offices

.56 Visits to practice offices should be sufficient to provide the review team with a reasonable basis for its conclusions regarding whether the reviewed firm’s quality control policies and procedures are adequately communicated throughout the firm and whether its system of quality control was complied with during the year under review based on a reasonable cross section of the reviewed firm’s accounting and auditing practice, with greater emphasis on those offices with higher assessed levels of peer review risk. Examples of the factors to consider when assessing peer review risk at the office level include the following (see interpretations).

a. The number, size, and geographic distribution of offices

b. The degree of centralization of accounting and auditing practice control and supervision

c. The review team’s evaluation, if applicable, of the firm’s monitoring procedures
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d. Recently merged or recently opened offices

e. The significance of industry concentrations and of specialty practice areas, such as governmental compliance audits or regulated industries, to the firm and to individual offices

f. Extent of nonaudit services to audit clients

g. Significant clients’ fees to practice office(s) and partner(s)

.57 For a multioffice firm, the review should include, in addition to any offices selected using the risk-based criteria, a visit to the firm’s executive office if one is designated as such.

Selection of Engagements

.58 Engagements subject to selection for review ordinarily should be those with periods ending during the year under review (see interpretations). For attestation engagements, including financial forecasts or projections, the selection for review ordinarily should be those with report dates during the year under review. If the current year’s engagement has not been completed and issued, and if a comparable engagement within the peer review year is not available, the prior year’s engagement may be reviewed. If the subsequent year’s engagement has been completed and issued, the review team should consider, based on its assessment of peer review risk, whether the more recently completed and issued engagement should be reviewed instead (see interpretations). Review team members should not have contact with or access to any client of the reviewed firm in connection with the peer review.

.59 Engagements selected for review should provide a reasonable cross section of the reviewed firm’s accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk. Examples of the factors to consider when assessing peer review risk at the engagement level include size; industry area; level of service; personnel (including turnover, use of merged-in personnel, or personnel not routinely assigned to accounting and auditing engagements); communications from regulatory, monitoring, or enforcement bodies; extent of nonaudit services to audit clients; significant clients’ fees to practice office(s) and partner(s); and initial engagements (see interpretations).

.60 The review of engagements should usually be directed toward the accounting and auditing work performed by the practice office visited, including the work performed on those engagements by other practice offices of the reviewed firm or other public accounting firms. For those situations in which the practice office being visited performed accounting and auditing work for another practice office, the review team may limit its review to portions of the engagements performed by the practice office being visited but should evaluate the appropriateness of the instructions issued by the other practice office and the adequacy of the procedures followed in performing and reporting in conformity with applicable professional standards. When combined with other procedures performed, the number and type of accounting and auditing engagements selected by the review team for review should be sufficient to provide the review team with a reasonable basis for its conclusions regarding the reviewed firm’s system of quality control.

.61 The initial selection of engagements to be reviewed should ordinarily be provided to the reviewed firm no earlier than three weeks prior to the commencement of the peer review procedures at the related practice office or location. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed should be provided to the firm once the review commences and not provided to the firm in advance. Ordinarily, based on the nature of the firm’s practice and assuming that the engagement would not be automatically anticipated for selection by the reviewed firm, the engagement should be an audit. Otherwise, the engagement should be the firm’s next highest level of service where the same criteria can be met. This should not increase the scope of the review (see interpretations).

.62 The process of engagement selection, except as noted in paragraph 63, like office selection, is not subject to definitive criteria. Nevertheless, if the team captain finds that meeting all of the preceding criteria results in the selection of an inappropriate scope of the firm’s accounting and auditing practice, the team captain should consult with the administering entity about the selection of engagements for review (see interpretations).

.63 Specific types and/or number of engagements must be selected in a System Review (see interpretations).
Extent of the Review of Engagements

.64 The review of engagements should include the review of financial statements, accountants’ reports, accounting and audit documentation, and correspondence, as well as discussions with professional personnel of the reviewed firm.

.65 Audit engagements have areas in which risk may be inherently significant, such as, but not limited to, fraud considerations, use of estimates, emerging issues, and assertions that are difficult to audit. The review team’s procedures should include determining whether the reviewed firm has appropriately:
   a. Identified the significant risk areas on each audit engagement selected for the peer review,
   b. Performed the necessary audit procedures related to the identified significant risk areas, and
   c. Documented the auditing procedures performed in these significant risk areas.

Concluding on the Review of an Engagement

.66 For each engagement reviewed, the review team should conclude on its review by documenting whether anything came to its attention that caused it to believe that the engagement was not performed and/or reported on in conformity with applicable professional standards in all material respects (see interpretations).

.67 The team captain should promptly inform the firm when an engagement is not performed and/or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (see interpretations).

Expansion of Scope

.68 If, during the peer review, the review team concludes that there was a failure to reach an appropriate conclusion on the application of professional standards in all material respects on one or more of the reviewed engagements, the review team should consider whether the application of additional peer review procedures is necessary. This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the failure is indicative of a pattern of such failures, whether it is a significant deficiency in the design of the reviewed firm’s system of quality control or in its compliance with the system, or whether it is both. In some circumstances, the reviewer may conclude that, because of compensating controls or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements or aspects of functional areas. Additional engagements may be in the same industry, supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to perform and/or report in conformity with professional standards.

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.69 In understanding the firm’s system of quality control, the team captain may note that the system is not designed appropriately. Similarly, the performance of compliance tests may uncover that the system is not being complied with appropriately or may identify a design weakness that was not identified during the planning of the peer review. With any of these items, the team captain has available a set of definitions to assist in classifying the condition noted.

.70 Determining the relative importance of matters noted during the peer review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) to document these items when applicable, are intended to assist in aggregating and evaluating the peer review results, concluding on them, and determining the nature of the peer review report to issue:
   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 and/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 and/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, causes, 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 and/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 and/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.

.71 A broad understanding of the peer review process, from the preliminary evaluation of the design of the system of quality control, to the tests of compliance, to the decision making process of determining whether an item noted during a System Review is a matter, finding, deficiency, or significant deficiency, is shown in exhibit A on the following page. The exhibit also illustrates the aggregation of these items, where those items are documented in the practice aids and how they might affect the type of report issued.
As described by exhibit A in paragraph 71, 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, causes, 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.

A matter is documented on an MFC form. If the matter, after further evaluation, gets elevated to a finding but not a deficiency or significant deficiency, it is documented on an FFC form. The FFC form is a standalone document that includes the reviewer’s recommendation and the reviewed firm’s response regarding actions planned or taken and the timing of those actions by the firm. 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, along with the reviewer’s recommendation. 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).

In order to document the disposition of all the MFCs, the team captain completes a DMFC form. The DMFC form is included in the Summary Review Memorandum as part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each as to whether it was cleared, discussed with the firm during the exit conference, included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of pass with deficiencies or as a significant deficiency in a report with a peer review rating of fail.
Aggregating and Systemically Evaluating Matters

.75 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 their relative importance to the firm’s system of quality control as a whole and their nature, causes, pattern, and pervasiveness.

.76 Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the peer review.

Design Matters

.77 A design matter exists when the reviewed firm’s system of quality control is missing a quality control policy or procedure or the reviewed firm’s existing quality control policies and procedures, even if fully complied with, would not result in engagements performed and/or reported on in accordance with professional standards in some respect. To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with. To make this determination, the review team should consider the implications of the evidence obtained during its evaluation of the system of quality control and its tests of compliance, including its reviews of engagements. For example, a pattern of engagement failures to perform and/or report in conformity with applicable professional standards in all material respects (that is, failures requiring the application of AU sections 561, Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report, or AU section 390, Consideration of Omitted Procedures After the Report Date [AICPA, Professional Standards, vol. 1]) likely is indicative of a finding pertaining to the design of the reviewed firm’s quality control policies and procedures.

.78 As noted in SQCS No. 7, “The nature of the policies and procedures developed by individual firms to comply with this Statement will depend on various factors such as the size and operating characteristics of the firm.” Likewise, the relative importance of design matters noted in the reviewed firm’s quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the firm’s size, organizational structure, and the nature of its practice. For example, a matter noted during the review of a quality control policy or procedures may be particularly or wholly offset by another policy or procedure. In this circumstance, the review team should consider the interrelationships among the elements of quality and weigh the matters noted against compensating policies and procedures to determine whether a finding exists and its relative importance.

.79 There may be circumstances in which the reviewer finds few findings in the work performed by the firm and yet may conclude that the design of the firm’s system of quality control needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as human resources (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. However, in the absence of findings in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in an FFC as a finding rather than result in a report with a peer review rating of pass with deficiencies or fail.

Compliance Matters

.80 A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Since a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
.81 In assessing whether the degree of compliance was adequate to provide the required assurance, the review team should consider the nature, causes, pattern, and pervasiveness of the instances of noncompliance noted and their relative importance to the firm’s system of quality control as a whole, not merely their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the firm’s size, organizational structure, and the nature of its practice.

.82 To determine the degree of noncompliance, the review team should evaluate the matters of noncompliance, both individually and in the aggregate, recognizing that adherence to certain policies and procedures of the reviewed firm is more critical to the firm obtaining reasonable assurance of performing and reporting in conformity with applicable professional standards than adherence to others. In this context, the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in engagements not being performed and/or reported on in conformity with applicable professional standards in all material respects. The more direct the relationship between a specific quality control policy or procedure and the application of professional standards, the lower the degree of noncompliance necessary to determine whether a matter (or matters) is a finding and whether a finding is a deficiency or significant deficiency.

**Determining the Cause for a Finding**

.83 When the review team is faced with an indication that the firm failed to perform and/or report in conformity with applicable professional standards in all material respects, the review team’s first task in such circumstances is to determine the cause of the failure (see interpretations). Causes that might be systemic and might affect the type of peer review report issued include, but are not limited to, the following:

a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.

b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.

c. The failure should have been detected if the firm’s quality control policies and procedures had been followed.

d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion.

.84 The failure to perform and/or report in conformity with applicable professional standards in all material respects may be the result of an isolated human error and, therefore, would not necessarily mean that a peer review report with a peer review rating of *pass with deficiencies or fail* should be issued (see interpretations). However, if the reviewer believes that the probable cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a failure to perform and/or report in conformity with applicable professional standards in all material respects on an engagement or a finding within a functional area also exists in other engagements or in other functional areas, the reviewer needs to consider carefully the need to issue a peer review report with a peer review rating of *pass with deficiencies or fail*.

.85 Although an isolated matter or an instance of noncompliance with the firm’s quality control policies and procedures ordinarily would not be included in the report, its nature, cause (if determinable), and relative importance for the firm’s system of quality control as a whole should be evaluated in conjunction with the review team’s other findings before making a final determination (see interpretations).

**The Pattern and Pervasiveness of Matters**

.86 The review team must consider the pattern and pervasiveness of matters and their implications for compliance with the firm’s system of quality control as a whole, in addition to their nature, causes, and relative importance in the specific circumstances in which they were observed. As noted in the preceding paragraphs, the review team’s
first task is to try to determine why the matters occurred. In some cases, the design of the firm’s system of quality control may be deficient (for example, when it does not provide for timely involvement in the planning process by a partner of the firm or there is inadequate supervision of engagement planning). In other cases, there may be a pattern of noncompliance with a quality control policy or procedure such as when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were not used or relevant questions or points were incorrectly considered. That increases the possibility that the firm might not perform and/or report in conformity with applicable professional standards in all material respects, which also means that the reviewer must consider carefully whether the matter(s) individually or in the aggregate is (are) a deficiency or a significant deficiency and whether there is the need to issue a peer review report with a peer review rating of pass with deficiencies or fail. On the other hand, the types of matters noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the matters were isolated cases of human error that should not result in a peer review report with a peer review rating of pass with deficiencies or fail.

**Forming Conclusions on the Type of Report to Issue in a System Review**

.87 The team captain must use professional judgment in determining the type of peer review report to issue. This judgment requires the consideration of several factors, including an understanding of the firm’s system of quality control and the nature, causes, pattern, and pervasiveness of matters and their relative importance to the firm’s system of quality control taken as a whole, including limitations on the scope of the review.

**System Review Report with a Peer Review Rating of Pass**

.88 A report with a peer review rating of pass should be issued when the team captain concludes that the firm’s system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, significant deficiencies, or recommendations. In the event of a scope limitation, a report with a peer review rating of pass (with a scope limitation) is issued.

**System Review Report with a Peer Review Rating of Pass with Deficiencies**

.89 A report with a peer review rating of pass with deficiencies should be issued when the team captain concludes that the firm’s system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report. These deficiencies are conditions related to the firm’s design of and compliance with its system of quality control that could create a situation in which the firm would have less than reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects due to the nature, causes, pattern, or pervasiveness, including the relative importance of the deficiencies to the quality control system taken as a whole. In the event of a scope limitation, a report with a peer review rating of pass with deficiencies (with a scope limitation) is issued.

**System Review Report with a Peer Review Rating of Fail**

.90 A report with a peer review rating of fail should be issued when the team captain has identified significant deficiencies and concludes that the firm’s system of quality control is not suitably designed to provide the firm with reasonable assurance of performing in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In the event of a scope limitation, a report with a peer review rating of fail (with a scope limitation) is issued.

**Communicating Conclusions at the Exit Conference**

.91 A firm that has a System Review should respond promptly to questions raised in the review in order to assist the review team in reaching its conclusions. Prior to issuing its report or finalizing FFC form(s), if applicable, the
review team should communicate its conclusions to senior members of the reviewed firm at an exit conference (see interpretations). Ordinarily, the team captain should be physically present at the exit conference, unless the System Review is performed at a location other than the reviewed firm’s office. The exit conference may also be attended by representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities.

.92 The reviewed firm is entitled to be informed at the exit conference about any matters documented on the MFC form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report to be issued. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The review team should also communicate, if applicable, that the firm will be required to respond to the findings documented on the FFC form(s), and/or the deficiency(ies) or significant deficiencies included in the peer review report. The review team should also communicate that the firm may be required, if applicable, to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report and/or (2) complete an implementation plan to address the findings noted in the FFC form(s). The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm’s enrollment in the program. The exit conference is also the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).

Addressing Disagreements Between the Reviewer and the Reviewed Firm

.93 Disagreements may arise on the resolution of various issues, for instance, related to the review of particular engagements, the systemic cause 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 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 the administering entity’s peer review committee resolve the disagreement. 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.

Reporting on System Reviews

General

.94 The team captain should furnish the reviewed firm with a written report within 30 days of the exit conference date or by the firm’s peer review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the team captain performing the review. The report in a System Review ordinarily should be dated as of the date of the exit conference. See interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

Preparing the Report in a System Review


.96 The written report in a System Review should:

a. State at the top of the report the title “System Review Report.”

b. State that the system of quality control for the accounting and auditing practice of the firm was reviewed and include the year-end covered by the peer review.

c. State that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.

d. State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

e. State that the reviewer’s responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on the review.

f. State that the nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards.

g. Include a URL reference to the AICPA Web site where the standards are located.

h. Identify engagement types required to be selected by the board in the interpretations, when applicable.

i. Identify the different peer review ratings that the firm could receive.

j. In a report with a peer review rating of pass:

• Express an opinion that the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

• State at the end of the opinion paragraph that therefore the firm has received a peer review rating of pass.

• In the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm’s practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the affect of the exclusion on the scope and results of the peer review.

• Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies, or recommendations.

k. In a report with a peer review rating of pass with deficiencies:¹⁴

• Express an opinion that, except for the deficiencies described above, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

¹⁴ Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.
• State at the end of the opinion paragraph that therefore the firm has received a peer review rating of pass with deficiencies.

• In the event of a scope limitation, include an additional paragraph before the deficiencies that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm’s practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the affect of the exclusion on the scope and results of the peer review.

1. In a report with a peer review rating of fail:

• Express an opinion that as a result of the significant deficiencies described above, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended was not suitably designed or complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

• State at the end of the opinion paragraph that therefore the firm has received a peer review rating of fail.

• In the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm’s practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the affect of the exclusion on the scope and results of the peer review.

m. Include, for reports with a peer review rating of pass with deficiencies or fail, systemically written descriptions of the deficiencies or significant deficiencies and the reviewing firm’s recommendations (each of these should be numbered) (See interpretations).

n. 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 (see interpretations). This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.

o. Identify the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific included in the report with a peer review rating of pass with deficiencies or fail.

Firm Responses in a System Review

.97 If the reviewed firm receives a report with a peer review rating of pass with deficiencies or fail, the reviewed firm should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity’s peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the team captain or by the firm’s peer review due date, whichever date is earlier. Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the team captain for review, evaluation, and comment (see interpretations).

.98 If the reviewed firm receives a report with a peer review rating of pass or pass (with a scope limitation), a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.

.99 The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The team captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations).

.100 If, after a discussion with the team captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph 93). If the reviewed firm still disagrees with one or more of the findings, deficiencies, or sig-

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15 And/or the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.
significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for the disagreement.


Performing Engagement Reviews

Objectives

.102 The objective of an Engagement Review is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and representations and, except for compilation engagements performed under SSARS, the applicable documentation required by professional standards.

.103 Engagement Reviews are available only to firms that do not perform engagements under the SASs, Government Auditing Standards, examinations of prospective financial statements under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB. However, firms eligible to have an Engagement Review may elect to have a System Review (see interpretations).

Basic Requirements

.104 The criteria for selecting the peer review year-end and the period to be covered by an Engagement Review are the same as those for a System Review (see paragraphs 13–19). Engagements subject to review ordinarily should be those with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the selection for review ordinarily should be those engagements with report dates during the year under review. The reviewed firm should provide summarized information showing the number of its compilation and review engagements performed under SSARS and engagements performed under the SSAEs, classified into industry categories. That information should be provided for each partner, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements. On the basis of that information, the review captain or the administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines:

a. One engagement should be selected from each of the following areas of service performed by the firm:
   1. Review of historical financial statements (performed under SSARS)
   2. Compilation of historical financial statements, with disclosures (performed under SSARS)
   3. Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
   4. Engagements performed under the SSAEs other than examinations of prospective financial statements.

b. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item (a).

c. Ordinarily, at least two engagements should be selected for review.

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

.106 The review captain should obtain the required representations submitted by the firm (see paragraph 5(f)) and should obtain the firm’s prior peer review report,\(^{16}\) the letter response, if applicable, and the letter accepting those documents, all from the reviewed firm. The review captain should also obtain the prior FFC forms (from the administering entity if the review captain’s firm did not perform the prior review).

.107 For each engagement selected for review, the reviewed firm should submit the appropriate financial statements or information and the accountant’s report, masking client identity if it desires, along with specified background information, representations about each engagement and, except for compilation engagements performed under SSARS, the firm’s documentation required by applicable professional standards for each of these engagements. There is a presumption that all engagements otherwise subject to the peer review will be included in the scope of the review. However, in the rare situations when exclusions or other limitations on the scope of the review are being contemplated, a reviewer should carefully consider the implications of such exclusion. This includes communicating with the firm and the administering entity the effect on the review and on the ability of the reviewer to issue a peer review report.

.108 The evaluation of each engagement submitted for review includes:

\(a\). Consideration of the financial statements or information and the related accountant’s report on the compilation and review engagements performed under SSARS and engagements performed under SSAEs.

\(b\). Consideration of the documentation on the engagements performed via reviewing background and engagement profile information, representations made by the firm, and inquiries.

\(c\). For engagements other than compilation engagements performed under SSARS, review of all other documentation required by applicable professional standards on the engagements.

\(d\). The review captain may request to review all other documentation on compilation engagements performed under SSARS if the firm has represented that the documentation is appropriate but the review captain has cause to believe that the documentation may not have been prepared in accordance with applicable professional standards, or to support presentation or measurement issues relating to the financial statements or information, if necessary.

.109 An Engagement Review does not include a review of other documentation prepared on the engagements submitted for review (other than the documentation referred to in paragraphs 107–108), tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a System Review (see interpretations). Accordingly, an Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm’s system of quality control for its accounting practice. The review captain’s report does indicate, however, whether anything came to the review captain’s attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects (see interpretations). The review captain should promptly inform the firm when an engagement is not performed and/or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (see interpretations).

### Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.110 Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) described below to document these items, are intended to assist in determining the nature of the peer review report to issue:

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\(^{16}\) And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.
AICPA Peer Review Program Manual

Standards for Performing and Reporting on Peer Reviews

PRP §1000.111

1111 A broad understanding of the peer review process, from the review of submitted engagements to the decision making process of determining whether an item noted during an Engagement Review is a matter, finding, deficiency, or significant deficiency, is shown in exhibit B on the following page. The exhibit also illustrates the aggregation of these items, where those items are documented in the practice aids, and how they might affect the type of report issued.
.112 As described by exhibit B in paragraph 111, 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 their nature and relative importance, including whether they are material to the understanding of the report or financial statements and/or represent the omission of a critical procedure including documentation, may not get elevated to a deficiency. Alternatively, 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.

.113 A matter is documented on an MFC form. If the matter, after further evaluation, gets elevated to a finding, but not a deficiency or significant deficiency, it is documented on an FFC form. The FFC form is a standalone document that includes the reviewer’s recommendation and the reviewed firm’s response regarding actions planned or taken and the timing of those actions by the firm. 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). 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, along with the reviewer’s recommendation. 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).
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.A.114 In order to document the disposition of all the MFCs, the review captain completes a DMFC form. The DMFC form is included in the review captain’s checklist as part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each as to whether it was cleared, discussed with the firm, included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of pass with deficiencies or as a significant deficiency in a report with a peer review rating of fail.

.A.115 A firm that has an Engagement Review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing. The review captain will contact the firm, before issuing the final peer review report, to resolve questions raised during the peer review and to complete the MFC, DMFC, and FFC forms as applicable. In addition to discussing deficiencies or significant deficiencies and recommendations to be included in a report with a peer review rating of pass with deficiencies or fail, ordinarily, these should be discussed, along with the content of the letter of response, and agreed upon with the firm prior to the issuance of the final written report. The review captain should also communicate, if applicable, that the firm may be required to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report and/or (2) complete an implementation plan to address the findings noted on the FFC form(s). The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm’s enrollment in the program. This is also the appropriate opportunity for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).

Addressing Disagreements Between the Reviewer and the Reviewed Firm

.A.116 Disagreements may arise 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 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 the administering entity’s peer review committee resolve the disagreement. 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.

Reporting on Engagement Reviews

Forming Conclusions on the Type of Report to Issue in an Engagement Review

Engagement Review Report With a Peer Review Rating of Pass

.A.117 A report with a peer review rating of pass is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, significant deficiencies, or recommendations. In the event of a scope limitation, a report with a peer review rating of pass (with a scope limitation) is issued.

Engagement Review Report With a Peer Review Rating of Pass with Deficiencies

.A.118 A report with a peer review rating of pass with deficiencies is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. The deficiencies are one or more findings that the peer re-
Standards for Performing and Reporting on Peer Reviews

viewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards. A report with a peer review rating of pass with deficiencies is issued when at least one but not all of the engagements submitted for review contain a deficiency. However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of pass with deficiency should be issued rather than with a peer review rating of fail. In the event of a scope limitation, a report with a peer review rating of pass with deficiencies (with a scope limitation) is issued.

**Engagement Review Report With a Peer Review Rating of Fail**

.119 A report with a peer review rating of fail is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of fail is issued when deficiencies are evident on all of the engagements submitted for review. However, a report with a peer review rating of pass with deficiency should be issued when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies. The review captain should not expand scope beyond the original selection of engagements in an effort to change the conclusion from a peer review rating of fail in these circumstances. In the event of a scope limitation, a report with a peer review rating of fail (with a scope limitation) is issued.

**General**

.120 In an Engagement Review, the review captain should furnish the reviewed firm with a written report within 30 days of the review of engagements or by the firm’s peer review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the review captain performing the review. Other reports are issued on the letterhead of the administering entity. The report in an Engagement Review ordinarily should be dated as of the date of the completion of the peer review procedures. See interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

**Illustrations of Reports in an Engagement Review**


.122 The written report in an Engagement Review should:

   a. State at the top of the report the title “Engagement Review Report.”

   b. State that the review captain reviewed selected accounting engagements of the firm and include the year-end covered by the peer review.

   c. State that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.

   d. State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects (even though this is an Engagement Review, the statement reflects the responsibility of the firm).

   e. State that the reviewer’s responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

   f. State that an Engagement Review does not include reviewing the firm’s system of quality control and compliance therewith and, accordingly, the reviewers express no opinion or any form of assurance on that system.
g. State that the nature, objectives, scope, limitations of, and procedures performed in an Engagement Review are described in the standards.

h. Include a URL to the AICPA Web site where the standards are located.

i. Identify the different peer review ratings that the firm could receive.

j. In a report with a peer review rating of pass, state:
   • That nothing came to the review captain’s attention that caused the review captain to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
   • At the end of the second paragraph, that therefore the firm has received a peer review rating of pass.
   • In the event of a scope limitation, include an additional paragraph before the last paragraph that describes the relationship of the excluded engagement(s) to the reviewed firm’s practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the affect of the exclusion on the scope and results of the peer review.
   • Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies, or recommendations.

k. In a report with a peer review rating of pass with deficiencies, state:
   • That except for the deficiencies described above, nothing came to the review captain’s attention that caused the review captain to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
   • At the end of the last paragraph, that therefore the firm has received a peer review rating of pass with deficiencies.
   • In the event of a scope limitation, include an additional paragraph before the deficiencies that describes the relationship of the excluded engagement(s) to the reviewed firm’s practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the affect of the exclusion on the scope and results of the peer review.

l. In a report with a peer review rating of fail, state:
   • That as a result of the deficiencies described above, the review captain believes that the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.
   • At the end of the last paragraph, that therefore the firm has received a peer review rating of fail.
   • In the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the relationship of the excluded engagement(s) to the reviewed firm’s practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the affect of the exclusion on the scope and results of the peer review.

m. Include, for reports with a peer review rating of pass with deficiencies or fail, descriptions of the deficiencies or significant deficiencies and the reviewing firm’s recommendations (each of these should be numbered) (see interpretations).

n. 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 in the firm’s previous peer review. However, if the specific types of reporting, presentation, disclosure, or documentation deficiencies or significant deficiencies are not substantially the same on the current review as on the prior review, the deficiencies or significant deficiencies would not be considered a repeat (see interpretations).

o. Identify the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific included in the report with a peer review rating of pass with deficiencies or fail.

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17 Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

18 And/or the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.
Firm Responses in an Engagement Review

.123 In an Engagement Review, if the firm receives a report with a peer review rating of pass with deficiencies or fail, the reviewed firm should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity’s peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the review captain or by the firm’s peer review due date, whichever date is earlier. Prior to submitting the letter of response to the administering entity, the reviewed firm should submit the response to the review captain for review, evaluation, and comment (see interpretations).

.124 If the firm receives a report with a peer review rating of pass or pass (with a scope limitation), a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.

.125 The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations).

.126 If, after a discussion with the review captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph 116). If the reviewed firm still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.

.127 Illustrations of letters of responses by a reviewed firm to reports with a peer review rating of pass with deficiencies and fail are included in appendices O, “Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Pass With Deficiencies in an Engagement Review” and Q, “Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Fail in an Engagement Review.”

Administering Peer Reviews

.128 All peer reviews intended to meet the requirements of the program should be carried out in conformity with these standards under the supervision of a state CPA society, group of state CPA societies, the AICPA Peer Review Board’s National PRC (see interpretations), or other entity (hereinafter, administering entity) approved by the board to administer peer reviews. This imposes an obligation on reviewed firms to facilitate completion of their peer reviews in compliance with the procedures established by the board, and to cooperate with the peer reviewer, administering entity, and the board in all matters related to the review.

.129 Entities requesting to administer the program are required to complete and sign a Plan of Administration annually whereby the entity agrees to administer the program in compliance with these standards, interpretations, and other guidance established by the board. Upon receipt of the plans by the AICPA, including jurisdictions not requesting to administer the program for their state, the board annually approves the administering entities for all of the jurisdictions covered by the program.

.130 This imposes an obligation on the administering entities to ensure that their staff, technical reviewers, committee members, and all others involved in the administration of the program and performance of peer reviews comply with these standards, interpretations, and other guidance established by the board. Administering entities shall also cooperate with the board in all matters related to the administration of the program. Failure to comply with these standards, interpretations, and other guidance may result in the revocation of the administering entity’s plan by the board. If an administering entity refuses to cooperate or is found to be deficient in administering the program in compliance with these standards or with other guidance, the board may decide pursuant to fair procedures whether the administering entity’s plan should be revoked or whether some other action should be taken.

.131 Due to the volume of peer reviews, firms, reviewers, and other contributing factors, the board recognizes that administering entities, and in some situations firms and peer reviewers, may need the flexibility, in specific
circumstances, to implement alternate methods of complying with the standards, interpretations, or guidance issued by the board. The board and/or its staff will consider reasonable requests from administering entities’ peer review committees on such matters. The comprehensiveness of the administering entity’s oversight policies and procedures will be considered as well as such factors as whether the objectives of the standards, interpretations, or guidance would still be met. Administering entities must submit a request in writing to the board for approval prior to implementing alternative methods of complying with the standards, interpretations, or other guidance. This request should ordinarily be submitted in conjunction with the submission of its plan.

Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities

.132 An administering entity appoints a peer review committee to oversee the administration, acceptance, and completion of peer reviews. The committee may decide to delegate a portion of the report acceptance function to report acceptance bodies (RABs), whose members may be, but are not required to be, members of the committee as well. Members of a committee or a RAB must meet minimum qualification requirements (see interpretations). It is ultimately the committee’s responsibility to ensure that it (or a RAB on its behalf) considers the results of peer reviews it administers that are undertaken to meet the requirements of the program. The activities of the committee should be carried out in accordance with administrative procedures and guidance issued by the board. Committee members may not participate in any discussion or have any vote with respect to a reviewed firm if the member lacks independence or has a conflict of interest with the reviewing firm, the reviewer, or the reviewed firm.

.133 The committee’s report acceptance responsibilities include, but are not limited to:

a. Ensuring that peer reviews are presented to an RAB in a timely manner, ordinarily within 120 days of the later of receipt of the working papers and peer review report from the team captain or review captain or, if applicable, the report with a peer review rating of pass with deficiencies or fail and the related letter of response from the reviewed firm, or within 60 days for Engagement Reviews meeting certain criteria (see paragraphs 137–138).

b. Considering whether the review has been performed in accordance with these standards, interpretations, and related guidance materials.

c. Considering whether the report, and the response thereto, if applicable, are in accordance with these standards, interpretations, and related guidance materials, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its letter of response.

d. Determining whether it should require any remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions include, but are not limited to, requiring certain individuals to obtain specified kinds and specified amounts of CPE, requiring the firm to carry out more comprehensive monitoring procedures, or requiring it to engage another CPA to perform preissuance or postissuance reviews of financial statements, reports, and accounting and audit documentation to attempt to strengthen the performance of the firm’s personnel.

e. In relation to FFCs:

1. Considering whether FFC (and associated MFC and DMFC) forms are prepared in accordance with these standards, interpretations, and related guidance materials, including whether the findings addressed on the FFC forms should have been included in a report with a peer review rating of pass with deficiencies or fail.

2. Determining the adequacy of the plan the reviewed firm has represented that it has implemented or will implement in its response on the FFC form(s).

3. Determining whether it should require an implementation plan in addition to or as an affirmation of the plan described by the reviewed firm in its response to the findings on the FFC form(s).

f. Ensuring that all corrective actions related to deficiencies or significant deficiencies in the peer review report and all implementation plans related to findings on FFC forms have been completed to the satisfaction of the committee.
Ensuring that all firms within its jurisdiction have timely peer reviews and keeping track of the timing of the completion of corrective actions and implementation plans by all firms that the committee has required, including those that are overdue.

.134 In reaching its conclusions on the preceding items, the committee is authorized to make whatever inquiries or initiate whatever actions 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. Such inquiries or actions by the committee 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.

.135 In the rare event of a disagreement between the administering entity and either the reviewer or the reviewed firm that cannot be resolved by ordinary good-faith efforts, the administering entity may request that the matter be referred to the board for final resolution. Only the approved administering entity’s peer review committee will be responsible for determining whether a disagreement still exists in order to refer the matter to the board. In these circumstances, the board may consult with representatives of other AICPA committees or with appropriate AICPA staff.

Accepting System and Engagement Reviews

.136 Technical reviews are required to be performed by the administering entity on all peer reviews. Technical reviewers must meet minimum qualification requirements (see interpretations).

.137 All System Reviews are required to be presented for committee consideration, but committee consideration is not always required in an Engagement Review. The technical reviewer should be delegated the authority from the committee to accept Engagement Reviews in certain circumstances (see interpretations).

.138 Engagement Reviews that do not require committee consideration are required to be accepted by the technical reviewer within 60 days of receipt of the working papers and report from the review captain. If the committee does not delegate the authority to the technical reviewer to accept Engagement Reviews under the specific criteria indicated previously, the review is required to be presented to the committee within 60 days of receipt of the working papers and report from the review captain.

.139 In deciding on the need for and nature of any corrective actions, the committee should consider the nature and significance (and for System Reviews, the causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole) of the deficiencies or significant deficiencies. It should evaluate whether the recommendations of the review team appear to address those deficiencies or significant deficiencies adequately and whether the reviewed firm’s responses to those recommendations appear comprehensive, genuine, and feasible.

.140 If the peer review committee determines that corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition or as an affirmation of those described by the firm in its letter of response, are appropriate, the firm will be required to evidence its agreement to perform these corrective action(s) in writing before the report is accepted and complete the action(s) as a condition of cooperation with the administering entity and the board.

Cooperating in a Peer Review

.141 Paragraph 5(h) of the standards noted that firms (and individuals) enrolled in the program have the responsibility to cooperate with the peer reviewer, administering entity, and the board in all matters related to the peer review, including taking remedial, corrective actions or implementing FFC plans as needed.

.142 In deciding on the need for and nature of any implementation plan in addition to that described by the firm in its response on the FFC form, the committee should consider the nature and significance (and for System Reviews, the causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole) of the findings.

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19 The responsibilities and the role of technical reviewers are included in the AICPA Peer Review Program Report Acceptance Body Handbook, which is provided to all administering entities.
It should evaluate whether the recommendations of the review team appear to address those findings adequately and whether the reviewed firm’s responses to those recommendations appear comprehensive, genuine, and feasible.

.143 If the peer review committee determines, as part of its deliberations regarding the peer review, that an implementation plan in addition to or as an affirmation of those described by the firm in its responses on the FFC form are warranted, the firm will be required to evidence its agreement to perform this FFC implementation plan in writing and complete the plan as a condition of cooperation with the administering entity and the board (see interpretations). Although agreeing to and completing such a plan is not tied to the acceptance of the peer review, if a firm fails to cooperate, the firm would be subject to fair procedures that could result in the firm’s enrollment in the program being terminated (see interpretations). The resulting MFC, DMFC, and FFC forms, as well as any correspondence relating to the implementation plan to be followed by the firm related to these documents, are outside of the reporting and acceptance process.

.144 If a reviewed firm refuses to cooperate, fails to correct deficiencies or significant deficiencies, or is found to be so seriously deficient in its performance that education and remedial, corrective actions or implementation plans are not adequate, the 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 program should be terminated or whether some other action should be taken. A firm that receives peer reviews with recurring deficiencies or significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. In addition, a firm that fails to correct deficiencies or significant deficiencies after consecutive corrective actions requested by the committee may also be deemed as a firm refusing to cooperate.

.145 If a decision is made by the hearing panel to terminate a firm’s enrollment in the program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the hearing panel’s findings. The fact that a firm’s enrollment in the program has been terminated shall be published in such form and manner as the AICPA Council may prescribe.

Publicizing Peer Review Information

.146 The reviewed firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until it has been advised that the report has been accepted (see interpretations) by the administering entity as meeting the requirements of the program. Neither the administering entity nor the AICPA shall make the results of the review available to the public, except as authorized or permitted by the firm under certain circumstances (see interpretations). The administering entity and the AICPA may disclose the following information:

a. The firm’s name and address
b. The firm’s enrollment in the program
c. The date of acceptance and the period covered by the firm’s most recently accepted peer review
d. If applicable, whether the firm’s enrollment in the program has been dropped or terminated

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 omitted documentation of the work performed on the review or 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 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.
The board or committee may require the reviewer to comply with certain actions in order for the reviewer to continue performing peer reviews, such as (but not limited to) the following:

a. Submitting evidence of attendance at a future reviewer's training or accounting or auditing course(s)
b. Having committee oversight on the next review(s) performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as cost of travel)
c. Submitting all reports and appropriate documentation on all outstanding peer reviews before scheduling or performing another review
d. Having preissuance review(s) of the report and peer review documentation on future peer reviews by an individual acceptable to the committee chair or designee who has experience in performing peer reviews

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

.150 Any condition imposed on a reviewer will generally apply to the individual’s service as a team captain, review captain, or a team member unless the condition is specific to the individual’s service as only a team captain, review captain, or team member.

.151 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 would consider ratifying the action(s) taken by the committee for the reviewer’s name to be removed from the list of qualified reviewers. 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.

.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 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.

Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs

Introduction

.154 Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm’s system of quality control. Such materials provide guidance to assist firms in performing and reporting in conformity with professional standards and may include, but are not limited to, such items as:

a. Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams
b. Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms
.155 Occasionally, organizations (hereinafter referred to as providers) may sell or otherwise distribute to CPA firms (hereinafter referred to as user firms) QCM that they have developed. They may also sell or distribute CPE programs that they have developed.

.156 Providers may elect voluntarily or be required (see paragraph 159) to have an independent review of their system of quality control for the development and maintenance of the QCM or CPE programs they have developed and of the materials themselves. The reasons for having such a review are:

a. To provide assurance to user firms that the QCM or CPE programs they have acquired are reliable aids to assist them in conforming to those professional standards the materials purport to encompass.

b. To provide more cost-effective peer reviews for firms that have acquired or use such materials.

c. To ensure that independence and objectivity on peer reviews of user firms is maintained when such peer reviews are performed by providers or other user firms in the same association of CPA firms.

.157 A summary of the nature, objectives, scope, limitations of, and procedures performed on QCM or CPE programs is included in appendix A.

Objectives of a Peer Review of QCM or CPE Programs

.158 The objectives of a peer review of QCM or CPE programs developed by a provider are:

a. To determine whether the provider’s system for the development and maintenance of the QCM or the CPE programs was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.

b. To determine whether the resultant materials are reliable aids.

Applicability

.159 An independent review of the system for the development and maintenance of QCM or CPE programs and the resultant materials (the QCM review or CPE review) is required for the following classes of providers:

a. A firm providing QCM or CPE programs to another firm for which the provider firm will perform the peer review

b. An association of CPA firms’ provider when a user firm in the association will perform a peer review of another user firm in the association

.160 A provider of QCM or CPE programs falling into either of these categories should have a QCM or CPE review once every three years and should arrange to have such a peer review administered by the National PRC performed in accordance with these standards. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the National PRC to determine whether an accelerated peer review is warranted.

.161 Any other provider of QCM or CPE programs that voluntarily elects to have a QCM or CPE review performed in accordance with these standards should also consult with the National PRC. A provider may have a review voluntarily so that peer reviewers of user firms can place reliance on the QCM or CPE review to reduce the scope of the review of the firm’s QCM or CPE programs.

.162 A QCM or CPE review under these standards may not include materials relating to audits of SEC issuers performed pursuant to the standards of the PCAOB.

.163 All providers that plan to have a QCM or CPE review performed in accordance with these standards must notify the National PRC in advance of that review so it can be appropriately scheduled. If a QCM or CPE review has commenced, providers must also notify the National PRC before a review is terminated prior to completion.
Qualifications for Serving as QCM or CPE Reviewers

.164 A QCM or CPE review team may be formed by a firm engaged by the provider under review or an association of CPA firms authorized by the board to assist its members in forming review teams (an association formed review team). Peer reviews of association QCM or CPE programs may not be performed by a member of the association whose materials or programs are being reviewed. Furthermore, the National PRC will not appoint to the QCM or CPE review team a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the QCM or CPE review, such as someone who assisted in the development or review of such materials or uses the materials as an integral part of the firm’s system of quality control.

.165 A QCM or CPE reviewer shall possess the qualifications set forth in the paragraphs under “Organizing the System or Engagement Review Team” and “Qualifying for Service as a Peer Reviewer” (see paragraphs 26–35).

Procedures for Performing QCM or CPE Reviews

.166 The provider should identify the materials, whether QCM or CPE program materials, to be reviewed and on which an opinion is to be expressed. A QCM or CPE review should include a study and evaluation of the system for the development and maintenance of the QCM or CPE program that have been identified and a review of the materials themselves. Where not otherwise addressed in the following list, the peer reviewer should refer to the guidance for performing and reporting on System Reviews (see paragraphs 36–101) and accepting System and Engagement Reviews (see paragraphs 132–140) for additional guidance on performing, reporting on, and accepting QCM and CPE reviews.

.167 A provider’s system for the development and maintenance of the materials normally should include:

a. A requirement that the materials be developed by individuals qualified in the subject matter.

b. A requirement that the materials be reviewed for technical accuracy by a qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass.

c. Procedures to ensure the currency and relevancy of the materials.

d. Procedures for soliciting and evaluating feedback from users of the materials.

e. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials, and the provider’s policy, if any, regarding the issuance of updates to the materials and, if a policy exists, the method of updating.

f. Procedures for ensuring that the materials are updated in accordance with the provider’s policy when it has undertaken to update them.

.168 A study and evaluation of the system for the development and maintenance of the materials normally should include the following procedures:

a. Reviewing and evaluating the procedures established for developing and maintaining the materials.

b. Reviewing and evaluating the procedures established for updating (including distributing) the materials to ensure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials (and for communicating any relevant changes in professional standards to program participants if new professional standards are issued prior to updating the CPE programs).

c. Reviewing the technical competence of the developer(s) or updater(s) of the materials.

d. Obtaining evidence that the materials were reviewed for technical accuracy by qualified person(s) other than the developer(s) or updater(s).

e. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider’s intention to update the materials.

f. Reviewing the system developed for soliciting and evaluating feedback from users of the materials.
.169 A QCM or CPE review team should review the resultant materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids to assist firms in conforming to those professional standards the materials purport to encompass.

**Reporting on QCM or CPE Reviews**

**General**

.170 The QCM or CPE review team should furnish the provider with a written report and the final FFC forms within 30 days of the date of the exit conference or by the provider’s review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the firm of the team captain performing the review. The report in a QCM or CPE review ordinarily should be dated as of the date of the exit conference. See interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

**Preparing the Report in a QCM or CPE Review**


.172 A QCM or CPE report with a rating of pass, pass with deficiencies, or fail shall contain elements similar to those in a System Review report. As such, the written report in a QCM or CPE System Review should:

a. State at the top of the page the title “Quality Control Materials Review Report” or “CPE Programs Review Report.”

b. State that the system of quality control for the development and maintenance of the materials and the resultant materials in effect at the year-end covered by the peer review were reviewed.

c. State that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.

d. State that the organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in performing and reporting in conformity with applicable professional standards in all material respects those professional standards that the materials purport to encompass.

e. State that the reviewer’s responsibility is to express an opinion on the design of the system of quality control and the organization’s compliance therewith based on the review.

f. State that the nature, objectives, scope, limitations of, and procedures performed in a Quality Control Materials review or CPE review are described in the standards.

g. Include a URL reference to the AICPA Web site where the standards are located.

h. Identify the different peer review ratings that the organization could receive.

i. In a report with a peer review rating of pass:

   • Express an opinion that the system of quality control for the development and maintenance of the quality control materials or CPE program was suitably designed and was being complied with during the year ended to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.

   • Express an opinion that the quality control materials or CPE program were reliable aids at the year-end.
Standards for Performing and Reporting on Peer Reviews

- State at the end of the opinion paragraph that therefore the report reflects a peer review rating of pass.
- In the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the scope limitation, including the relationship of the excluded steps to the full system, and the affect on the scope and results of the review.
- Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies, or recommendations.

j. In a report with a peer review rating of pass with deficiencies:
- Express an opinion that, except for the deficiencies described above, the system of quality control for the development and maintenance of the quality control materials or CPE program was suitably designed and was being complied with during the year ended to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.
- State at the end of the opinion paragraph that therefore the report reflects a peer review rating of pass with deficiencies.
- In the event of a scope limitation, include an additional paragraph before the deficiencies that describes the scope limitation, including the relationship of the excluded steps to the full system, and the affect on the scope and results of the review.

k. In a report with a peer review rating of fail:
- Express an opinion that as a result of the significant deficiencies described above, the system of quality control for the development and maintenance of the quality control materials or CPE program was not suitably designed and being complied with during the year ended to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.
- State at the end of the opinion paragraph that therefore the firm has received a peer review rating of fail.
- In the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the scope limitation, including the relationship of the excluded steps to the full system, and the affect on the scope and results of the review.

l. Include, for reports with a peer review rating of pass with deficiencies or fail, systemically written descriptions of the deficiencies or significant deficiencies and the reviewing firm’s recommendations (each of these should be numbered).

m. 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 organization’s previous peer review. This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.

Forming Conclusions on the Type of Report to Issue in a QCM or CPE Review

.173 The following circumstances ordinarily would be considered deficiencies or significant deficiencies and would require a report with a peer review rating of pass with deficiencies or fail:

a. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary.

b. The provider’s system of quality control for the development and maintenance of QCM or CPE programs, as designed, did not provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass.

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20 Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

21 And/or the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.
c. The degree of compliance with the provider’s system of quality control for the development and maintenance of QCM or CPE programs was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass.

d. The resultant QCM or CPE programs are not reliable aids to assist user firms in conforming to those professional standards the materials purport to encompass.

.174 In those instances in which the QCM or CPE review team determines that a report with a peer review rating of pass with deficiencies or fail is required, all the reasons should be disclosed, and the QCM or CPE review team should consult with the National PRC prior to the issuance of the report.

Provider Responses on QCM and CPE Program Reviews

.175 If the provider receives a report with a peer review rating of pass with deficiencies or fail, then the provider should respond in writing to the deficiencies and significant deficiencies and related recommendations identified in the report, if applicable. The letter of response should be addressed to the AICPA Peer Review Board and should describe the action(s) planned (including timing) or taken by the provider with respect to each deficiency in the report. If the provider disagrees with one or more of the deficiencies or significant deficiencies, its response should describe the reasons for such disagreement. In the event that a material error or omission in the QCM or CPE programs is uncovered by the QCM or CPE review team, the response also should describe the provider’s plan for notifying known users of that error or omission. The provider should submit the letter of response for review and comment to the team captain prior to submitting the response to the National PRC.

.176 The provider should submit a copy of the report and its letter of response to the National PRC within 30 days of the date it received the report or by the provider’s peer review due date, whichever date is earlier. Prior to submitting the response to the National PRC, the reviewed firm should submit the response to the team captain for review, evaluation, and comment. If the provider receives a report with a peer review rating of pass or pass (with a scope limitation), a letter of response is not applicable, and the provider does not submit a copy of the report to the National PRC.

.177 The provider should also respond on the FFC forms, if any are developed, to findings and related recommendations. These responses should describe the plan (including timing) the provider has implemented or will implement with respect to each finding. They should be submitted to the team captain no later than two weeks after the exit conference or by the peer review’s due date, whichever is earlier. FFC forms are submitted by the team captain with the applicable working papers to the National PRC.

.178 If, after a discussion with the team captain, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph 93). If the provider still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.

Effective Date

.179 The effective date for these standards is for peer reviews commencing on or after January 1, 2009. Early implementation is not permitted.
Appendix A

Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials and Continuing Professional Education Program Reviews (as Referred to in a Peer Review Report)

(Effective for Peer Reviews Commencing on or After January 1, 2009)

1. Firms (and individuals) enrolled in the AICPA Peer Review Program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-Security and Exchange Commission (SEC) issuers covering a one-year period. The peer review is conducted by an independent evaluator, known as a peer reviewer. The AICPA oversees the program, and the review is administered by an entity approved by the AICPA to perform that role.

2. The peer review helps to monitor a CPA firm’s accounting and auditing practice (practice monitoring). The goal of the practice monitoring, and the program itself, is to promote quality in the accounting and auditing services provided by the AICPA members and their CPA firms. This goal serves the public interest and enhances the significance of AICPA membership.

3. There are two types of peer reviews: System Reviews and Engagement Reviews. System Reviews focus on a firm’s system of quality control, while Engagement Reviews focus on work performed on particular selected engagements. As noted in paragraphs 4 and 157, a further description of System and Engagement Reviews, and Quality Control Materials (QCM) and Continuing Professional Education (CPE) Reviews, as well as a summary of the nature, objectives, scope, limitations of, and procedures performed on them, is provided in the following sections.

System Reviews

4. A System Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a CPA firm’s system of quality control to perform accounting and auditing work. The system represents the policies and procedures that the CPA firm has designed, and is expected to follow, when performing its work. The peer reviewer’s objective is to determine whether the system is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.

5. Professional standards are literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to comply with when designing its system and when performing its work. Professional standards include but are not limited to the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA) that pertain to leadership responsibilities for quality within the firm (the “tone at the top”); relevant ethical requirements (such as independence, integrity and objectivity); acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring.

6. To plan a System Review, a peer reviewer obtains an understanding of (1) the firm’s accounting and auditing practice, such as the industries of its clients, and (2) the design of the firm’s system, including its policies and procedures and how the firm checks itself that it is complying with them. The reviewer assesses the risk levels implicit within different aspects of the firm’s practice and its system. The reviewer obtains this understanding through inquiry of firm personnel and review of documentation on the system, such as firm manuals.

7. Based on the peer reviewer’s planning procedures, the reviewer looks at a sample of the CPA firm’s work, individually called engagements. The reviewer selects engagements for the period covered by the review from a cross section of the firm’s practice with emphasis on higher risk engagements. The engagements selected include those performed under Government Auditing Standards, audits of employee benefit plans, and audits of depository institutions (with assets of $500 million or greater), when applicable. The scope of a peer review only covers accounting and auditing engagements; it does not include the firm’s SEC issuer practice, nor does it include tax or consulting services.
The reviewer will also look at administrative elements of the firm’s practice to test the elements listed previously from the Statements on Quality Control Standards.

8. The reviewer examines engagement working paper files and reports, interviews selected firm personnel, reviews representations from the firm, and examines selected administrative and personnel files. The objectives of obtaining an understanding of the system and then testing the system forms the basis for the reviewer’s conclusions in the peer review report.

9. When a CPA firm receives a report from the peer reviewer with a peer review rating of pass, the report means that the system is appropriately designed and being complied with by the CPA firm in all material respects. If a CPA firm receives a report with a peer review rating of pass with deficiencies, this means the system is designed and being complied with appropriately by the CPA firm in all material respects, except in certain situations that are explained in detail in the peer review report. When a firm receives a report with a peer review rating of fail, the peer reviewer has determined that the firm’s system is not suitably designed or being complied with, and the reasons why are explained in detail in the report.

10. There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A peer review is based on selective tests. It is directed at assessing whether the design of and compliance with the firm’s system provides the firm with reasonable, not absolute, assurance of conforming to applicable professional standards. Consequently, it would not necessarily detect all weaknesses in the system or all instances of noncompliance with it. It does not provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated. Projection of any evaluation of a system to future periods is subject to the risk that the system may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Engagement Reviews

11. An Engagement Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a sample of a CPA firm’s actual accounting work, including accounting reports issued and documentation prepared by the CPA firm, as well as other procedures that the firm performed.

12. By definition, CPA firms undergoing Engagement Reviews do not perform audits or other similar engagements but do perform other accounting work including reviews and compilations, which are a lower level of service than audits. The peer reviewer’s objective is to evaluate whether the CPA firm’s reports are issued and procedures performed appropriately in accordance with applicable professional standards. Therefore, the objective of an Engagement Review is different from the objectives of a System Review, which is more system oriented and involves determining whether the system is designed in conformity with applicable professional standards and whether the firm is complying with its system appropriately.

13. Professional standards represent literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to follow when performing accounting work.

14. The reviewer looks at a sample of the CPA firm’s work, individually called engagements. The scope of an Engagement Review only covers accounting engagements; it does not include tax or consulting services. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and representations from the firm and, except for certain compilation engagements, the documentation required by applicable professional standards.

15. When the CPA firm receives a report with a peer review rating of pass, the peer reviewer has concluded that nothing came to his or her attention that the CPA firm’s work was not performed and reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of pass with deficiencies is issued when the reviewer concludes that nothing came to his or her attention that the work was not performed and reported on in conformity with applicable professional standards in all material respects, except in certain situations that are explained in detail in the report. A report with a peer review rating of fail is issued when the reviewer concludes that as a result of the situations described in the report, the work was not performed and/or reported on in conformity with applicable professional standards in all material respects.
16. An Engagement Review does not provide the reviewer with a basis for expressing any assurance as to the firm’s system of quality control for its accounting practice, and no opinion or any form of assurance is expressed on that system.

Quality Control Materials or CPE Program Reviews

17. A Quality Control Materials (QCM) or CPE Program Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of an organization’s (hereinafter referred to as provider) system of quality control to develop and maintain quality control materials (“materials”). The system represents the provider’s policies and procedures that the provider has designed, and is expected to follow, when developing the materials. The peer reviewer’s objective is to determine whether the system is designed and whether the organization is complying with its system appropriately so that users of the materials, primarily CPA firms and their employees, know that they can rely on the materials. The materials can be part or all of a firm’s documentation of their system, in the form of, for example, manuals, programs, and practice aids (forms and questionnaires). As such, the users rely on the materials to assist them in performing and reporting in conformity with professional standards (as described in the preceding paragraphs) in conducting their accounting and auditing practices.

18. A QCM or CPE review is similar to a System Review however, the focus is on the system for developing the materials, instead of on the system for the performance of accounting and auditing work. A reviewer obtains an understanding of the design of the provider’s system, including its policies and procedures and how the provider checks itself that it is complying with them. The reviewer obtains this understanding through inquiry of provider personnel and review of documentation on the system. The reviewer also reviews the materials to determine if they are reliable. The objectives of obtaining an understanding of the system and then reviewing the materials forms the basis for the reviewer’s conclusions in the peer review report.

19. The extent of a provider’s policies and procedures and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the provider and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

20. When a provider receives a QCM or CPE review report from a peer reviewer with a peer review rating of pass, this means the system is designed and being complied with appropriately to provide users of the materials with reasonable assurance that the materials are reliable. If a provider receives a report with a peer review rating of pass with deficiencies, this means the system is designed and complied with appropriately to provide users of the materials with reasonable assurance that the materials are reliable, except in certain situations that are explained in detail in the peer review report. When a provider receives a report with a peer review rating of fail, the peer reviewer has determined that the provider’s system is not suitably designed or being complied with to provide users of the materials with reasonable assurance that the materials are reliable, and the reasons why are explained in detail in the report.

21. There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A QCM or CPE peer review is based on selective review of the materials. It is directed at assessing whether the design of and compliance with the provider’s system provides the provider with reasonable, not absolute, assurance of the materials conforming with the professional standards they purport to encompass. Consequently, it would not necessarily detect all weaknesses in the system, all instances of noncompliance with it, or that each aspect of the materials is accurate or reliable. Projection of any evaluation of a system to future periods is subject to the risk that the system may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.
Considerations and Illustrations of Firm Representations

1. The team captain or review captain obtains written representations from management of the reviewed firm to describe matters significant to the peer review in order to assist in the planning and performance of and the reporting on the peer review. In connection with System and Engagement Reviews, specific representations should relate to the following matters, although the firm is not prohibited from making additional representations, and the firm may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the team captain or review captain (see interpretations):
   a. Situations or a summary of situations where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance (see interpretations).
   b. Communications or summary of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within the three years preceding the firm’s current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review (see interpretations). In addition, the reviewer may inquire if there are any other issues that may affect the firm’s practice.
   c. Restrictions or limitations on the firm’s or its personnel’s ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.
   d. Completeness and availability of the engagements with periods ending during the year under review. For engagements performed under the Statements on Standards for Attestation Engagements, including financial forecasts and projections, this includes those with report dates during the year under review.
   e. Discussions of significant issues from reports or communications, or both (see interpretations), from other practice monitoring or external inspection programs, such as the Public Company Accounting Oversight Board’s (PCAOB’s) (see interpretations), with the team captain.
   f. Other representations obtained by the team captain or review captain will depend on the circumstances and nature of the peer review.

2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Firm management’s refusal to furnish written representations to the team captain or review captain constitutes a failure to cooperate with the reviewer and thus the administering entity and with the AICPA Peer Review Board, and the firm would be subject to fair procedures that could result in the firm’s enrollment in the program being terminated (see interpretations).

3. On System Reviews, the written representations should be addressed to the team captain. Since the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report. The written representations should be signed by those members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner or manager in charge of the firm’s system of quality control. If a representation made by management is contradicted by other information obtained, the team captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.

4. On Engagement Reviews, the representations should be addressed to the review captain (for example, “To John Smith, CPA” or on committee-appointed review team reviews where appropriate, it may be addressed “To the Review Captain”) and dated the same date that the firm submits the list of engagements to the reviewer or the admin-
istering entity. The written representations should be signed by those members of management whom the reviewer or
the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm,
the matters covered in the representations, the firm, and its system of quality control (even though an Engagement
Review). Such members of management normally include the managing partner and partner or manager in charge of
the firm’s system of quality control. If a representation made by management is contradicted by other information
obtained, the reviewer should investigate the circumstances and consider the reliability of the representations made
and any effect on the report.

Illustration of a Representation Letter That has No Significant Matters to Report to the
Team Captain or Review Captain

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

October 31, 20XX
To the Team Captain or Review Captain

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy
and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which
[name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or
other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it prac-
tices for the year under review. We have also provided a list of all engagements to the [team captain, review captain,
or administering entity] with periods ending during the year under review. For attestation engagements, including
financial forecasts or projections, the list included those engagements with report dates during the year under review.
We have also provided the [team captain or review captain] with any other information requested, including commu-
nications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of
its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to
the firm or its personnel, within three years preceding the current peer review year-end. In addition, there are no
known restrictions or limitations on the firm’s or its personnel’s ability to practice public accounting by regulatory,
monitoring, or enforcement bodies within three years preceding the current peer review year-end. We have also dis-
cussed the content of our PCAOB inspection report with the [team captain or review captain] (if applicable).

Sincerely,

[Name of reviewed firm]

Illustration of a Representation Letter That Has Been Tailored to Report to the
Team Captain a Matter of Noncompliance With a Regulatory Requirement

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

October 31, 20XX
To the Team Captain or Review Captain

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

PRP §1000.181

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We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review. We have also provided a list of all engagements to the [team captain, review captain, or administering entity] with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the list included those engagements with report dates during the year under review. We have also provided the [team captain] with any other information requested, including communications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. In addition, there are no known restrictions or limitations on the firm’s or its personnel’s ability to practice public accounting within three years preceding the current peer review year-end. We have also discussed the content of our Public Company Accounting Oversight Board inspection report with the team captain (if applicable).

Sincerely,

[Name of reviewed firm]
Appendix C

Illustration of a Report With a Peer Review Rating of Pass in a System Review

[Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association formed review team.]

System Review Report

October 31, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.
and the Peer Review Committee of the [insert the name of the applicable administering entity]

We* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included (engagements performed under the Government Auditing Standards; audits of employee benefit plans, and audits performed under FDICIA).†

In our opinion, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. XYZ & Co. has received a peer review rating of pass.

Smith, Jones and Associates

[Name of team captain's firm]

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* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

† If the firm performs audits of employee benefit plans, engagements performed under Government Auditing Standards, audits of depository institutions with total assets of $500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.
Appendix D

Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review

Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm’s only engagement in an industry that must be selected is unavailable for review and there isn’t an earlier issued engagement that may be able to replace it, or when a significant portion of the firm’s accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of pass, pass with deficiency(ies) or fail. In this example, the scope limitation was included in a report with a peer review rating of pass.

[Firm letterhead for a firm-on-firm review; team captain’s firm letterhead for an association formed review team.]

System Review Report

October 31, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.
and the Peer Review Committee of the [insert the name of the applicable administering entity]

We* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included (engagements performed under the Government Auditing Standards; audits of employee benefit plans, and audits performed under FDICIA).†

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of its former partners who left the firm during the peer review year. Accordingly, we were unable to include in our engagement selection any of the divested engagements. That partner’s responsibility was concentrated in the construction industry. The engagements excluded from our engagement selection process included audit engagements and comprised approximately 15 percent of the firm’s audit and accounting practice during the peer review year.

* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.
† If the firm performs audits of employee benefit plans, engagements performed under Government Auditing Standards, audits of depository institutions with total assets of $500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.
In our opinion, except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review divested engagements, as described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. XYZ & Co. has received a peer review rating of pass (with a scope limitation).

Smith, Jones and Associates

[Name of team captain’s firm]
Appendix E

Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

*Firm letterhead for a firm-on-firm review; team captain’s firm letterhead for an association formed review team.*

**System Review Report**

August 31, 20XX

To the Partners of [*or other appropriate terminology*]

XYZ & Co.

and the Peer Review Committee of the [*insert the name of the applicable administering entity*]

We* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included (engagements performed under the *Government Auditing Standards*; audits of employee benefit plans, and audits performed under FDICIA).†

We noted the following deficiencies during our review:

1. **Deficiency**—The firm’s quality control policies and procedures do not provide its staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm’s review and compilation working papers did not include documentation of all procedures required by professional standards, in particular relating to accounts and notes payable. We were able to satisfy ourselves that, in each case, sufficient procedures had been performed, and the firm subsequently prepared the appropriate documentation.

   **Recommendation**—The firm’s quality control policies and procedures should be revised to ensure documentation of all procedures performed as required by professional standards. Although not required by professional standards, the firm should consider using the practice aids in the reference manuals available in the firm’s library in order to accomplish this step.

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* The report should use the plural *we, us*, and *our* even if the review team consists of only one person. The singular *I, me, and my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

† If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of $500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.
2. **Deficiency**—The firm’s quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but the standards emphasize the importance of proper planning to the conduct of the engagement. We found several audits performed in which, as a result of a lack of involvement including timely supervision by the engagement partner in planning the audit, the work performed on contracts, contract provisions, and related receivables did not support the firm’s opinion on the financial statements. The firm has subsequently performed the necessary additional procedures to provide a satisfactory basis for its opinion.

**Recommendation**—The firm’s quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.

3. **Deficiency**—The firm’s quality control policies and procedures require that financial statement reporting and disclosure checklists appropriate to the industry of the engagement being performed be completed. Our review noted that these checklists were not being used on all audit engagements. As a result, on certain audit engagements in the construction industry, the financial statements were missing several significant disclosures specific to the industry as required by generally accepted accounting principles. The subject reports have been recalled, and the financial statements are being revised.

**Recommendation**—The firm should conduct a training session for all personnel to review the firm’s policies and procedures for utilizing financial statement reporting and disclosure checklists that are appropriate to the industry of an engagement. The engagement partner should carefully review these checklists at the completion of an engagement to ensure that the appropriate checklists are utilized and to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm’s engagement review checklist requiring the engagement partner to document his or her review of these checklists.

In our opinion, except for the deficiencies described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of **pass**, **pass with deficiency(ies)**, or **fail**. XYZ & Co has received a peer review rating of **pass with deficiencies**.

Smith, Jones and Associates

[Name of team captain’s firm]
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

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140, “Accepting System and Engagement Reviews”). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

[Reviewed firm’s letterhead] September 21, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our† response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The corrective 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 modified its quality control policies and procedures to require the use of practice aids to document procedures performed on review and compilation engagements, especially for accounts and notes payable. Partners were instructed to ensure that these aids were being utilized appropriately when reviewing engagements. This policy was discussed in a recent training session held in connection with a recent firm-wide staff meeting.

2. The firm also modified its quality control policies and procedures to place a greater emphasis on partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in the training session referred to above.

3. In addition, at that training session, the importance of proper use of the firm’s reporting and disclosure checklists appropriate to the industry of the engagement being performed was discussed. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm’s CPE plan for partners and managers now includes annual updates on industry specific disclosure issues.

As mentioned above, these corrective actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings of the review.

Sincerely,

[Name of Firm]#

† The response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.

‡ The numbering of responses, to coincide with the numbered comments in the report, is optional.

# Signed by an authorized partner of the firm.
Appendix G

Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of pass with deficiencies or fail.

Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm’s only engagement in an industry that must be selected is unavailable for review and there isn’t an earlier issued engagement that may be able to replace it, or when a significant portion of the firm’s accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of pass, pass with deficiency(ies), or fail. In this example, the scope limitation was included in a report with a peer review rating of pass with deficiencies, where one of the deficiencies related to the circumstances of the scope limitation.

[Firm letterhead for a firm-on-firm review; team captain’s firm letterhead for an association formed review team.]

System Review Report

October 31, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable administering entity]

We* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Except as described below, our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included (audits of employee benefit plans and audits performed under FDICIA).†

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* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

† If the firm performs audits of employee benefit plans, engagements performed under Government Auditing Standards, audits of depository institutions with total assets of $500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.
In performing our review, the firm notified us that we would be unable to select its only audit subject to Government Auditing Standards (Yellow Book). As a result, we were unable to review all of the types of engagements required to be selected by the standards established by the Peer Review Board of the AICPA.

We noted the following deficiencies during our review:

1. **Deficiency**—The firm’s quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but the standards emphasize the importance of proper planning to the conduct of the engagement. We found several audits performed in which, as a result of a lack of involvement, including timely supervision by the engagement partner in planning the audit, the work performed on contracts, contract provisions, and related receivables did not support the firm’s opinion on the financial statements. The firm has subsequently performed the necessary additional procedures to provide a satisfactory basis for its opinion.

   **Recommendation**—The firm’s quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.

2. **Deficiency**—As noted above, in performing our review, the firm notified us that we would be unable to select its only audit subject to Government Auditing Standards (Yellow Book). As a result, the firm was not in compliance with the Yellow Book peer review engagement selection requirements.

   **Recommendation**—We recommend that the firm consider the importance of adhering to the Yellow Book requirements and the possible consequences of noncompliance.

In our opinion, except for the effects of the deficiency described above and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review the engagement as described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. XYZ & Co has received a peer review rating of pass with deficiencies (with a scope limitation).

Smith, Jones and Associates

[Name of team captain’s firm]
Appendix H

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140, “Accepting System and Engagement Reviews”). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

[Reviewed firm’s letterhead]

November 30, 20XX

Addressed to the peer review committee of the administering entity

Ladies and Gentlemen:

This letter represents our\(^1\) response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX.

1.\(^1\) The firm also modified its quality control policies and procedures to place a greater emphasis on partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in a recent training session held in conjunction with a recent firm-wide staff meeting.

2. Due to circumstances that we deemed appropriate, we notified the peer reviewer that he would be unable to select our only audit subject to Government Auditing Standards in the peer review. This is the only governmental audit the firm has performed, so there were no previous audits for the reviewer to select. We suggested selecting an audit engagement in a different industry. We have considered the consequences of noncompliance related to this matter.

Sincerely,

[Name of Firm]\(^2\)

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\(^1\) The response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.

\(^2\) The numbering of responses, to coincide with the numbered comments in the report, is optional.

\(^2\) Signed by an authorized partner of the firm.
Appendix I

Illustration of a Report With a Peer Review Rating of Fail in a System Review

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of pass with deficiencies or fail.

[Firm letterhead for a firm-on-firm review; team captain’s firm letterhead for an association formed review team.]

System Review Report

October 31, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.
and the Peer Review Committee of the [insert the name of the applicable administering entity]

We* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included (engagements performed under the Government Auditing Standards; audits of employee benefit plans, and audits performed under FDICIA).†

We noted the following significant deficiencies** during our review:

1. Deficiency—The firm’s quality control policies and procedures do not require written audit programs as required by professional standards. As a result, we noted several instances in which audit procedures were not adequately performed and documented in the areas of investments and expenses. As a result, the audit work performed for several audits did not support the opinion issued and was not performed in conformity with applicable professional standards. The firm has subsequently performed the omitted procedures to support the audit opinions.

Recommendation—The firm’s quality control policies and procedures should require the use of audit programs on all audits. All audit programs should be retained with the engagement working papers.

2. Deficiency—The firm’s quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted instances in which the firm did not consult during the year, either by use of the firm’s technical reference material or by requesting assistance from outside the firm. As a result, financial statements on audits for development stage companies did

* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.
† If the firm performs audits of employee benefit plans, engagements performed under Government Auditing Standards, audits of depository institutions with total assets of $500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.
** When considered together, the deficiencies rise to the level of significant deficiencies.
not conform with applicable professional standards. The firm was not aware of the unique disclosure and statement presentations required until it was brought to its attention during the peer review. The firm intends to recall and reissue the financial statements and reports.

**Recommendation**—The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm’s accounting and auditing personnel.

3. **Deficiency**—The firm’s quality control policies and procedures do not provide its personnel with a means of ensuring that all necessary procedures are performed on Employee Retirement Income Security Act (ERISA) engagements. During our review, we noted that the firm failed to adequately perform, including appropriately documenting, procedures related to benefit payments on ERISA engagements. The firm has subsequently performed the testing and documented its procedures.

**Recommendation**—The firm should review and implement the requirements of specialized industries. This can be accomplished by the purchase and use of practice aids tailored to the industry.

4. **Deficiency**—The firm’s quality control policies and procedures require that financial statement reporting and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures as required by generally accepted accounting principles. The subject reports have been recalled, and the financial statements are being revised.

**Recommendation**—The firm should conduct a training session for all personnel to review the firm’s policies and procedures for utilizing financial statement reporting and disclosure checklists specific to the industry of the engagement, when available. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm’s engagement review checklist requiring the engagement partner to document his or her review of these checklists.

In our opinion, as a result of the significant deficiencies described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX, was not suitably designed or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of **fail**.

Smith, Jones and Associates

[Name of team captain’s firm]
Appendix J

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Fail in a System Review

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each of the significant deficiencies discussed in the report. If the reviewed firm disagrees with one or more of the significant deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140, “Accepting System and Engagement Reviews”). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

November 30, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. All issues have been brought to the attention of personnel at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.

1. Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been reminded of their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements, and the quality of audit documentation will be a focus of the concurring partner’s review.

2. The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits, development stage companies, and other industries that are similar to ours. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar.

3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use.

4. At the staff meeting mentioned above, the importance of proper use of the firm’s reporting and disclosure checklist was discussed, including the use of checklists for specialized industries. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm’s CPE plan for partners and managers now includes annual updates on disclosure issues.

The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely postissuance review of engagements. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as mentioned above) has been sought, and this individual will be available for consultation and guidance.

Sincerely,

[Name of Firm]#

‡ The response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.

‖ The numbering of responses, to coincide with the numbered comments in the report, is optional.

# Signed by an authorized partner of the firm.
Appendix K

Illustration of a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of pass with deficiencies or fail.

Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm’s only engagement in an industry that must be selected is unavailable for review and there is not an earlier issued engagement that may be able to replace it, or when a significant portion of the firm’s accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of pass, pass with deficiency(ies), or fail. In this example, the scope limitation was included in a report with a peer review rating of fail.

System Review Report

October 31, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.
and the Peer Review Committee of the [insert the name of the applicable administering entity]

We* have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included (engagements performed under the Government Auditing Standards; audits of employee benefit plans, and audits performed under FDICIA).†

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of the firm’s four offices that divested from the firm during the peer review year. As a result, we were unable to include within our engagement selection any engagements issued by that office. The engagements excluded from our

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* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

† If the firm performs audits of employee benefit plans, engagements performed under Government Auditing Standards, audits of depository institutions with total assets of $500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.
engagement selection process included audit engagements and composed approximately 20 percent of the firm’s audit and accounting hours during the peer review year.

In addition, we noted the following significant deficiencies** during our review:

1. **Deficiency**—The firm’s quality control policies and procedures do not require written audit programs as required by professional standards. As a result, we noted several instances in which audit procedures were not adequately performed and documented in the areas of investments and expenses. As a result, the audit work performed for several audits did not support the opinion issued and was not performed in conformity with applicable professional standards. The firm has subsequently performed the omitted procedures to support the audit opinions.

   **Recommendation**—The firm’s quality control policies and procedures should require the use of audit programs on all audits. All audit programs should be retained with the engagement working papers.

2. **Deficiency**—The firm’s quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted instances in which the firm did not consult during the year, either by use of the firm’s technical reference material or by requesting assistance from outside the firm. As a result, financial statements on audits for development stage companies did not conform with applicable professional standards. The firm was not aware of the unique disclosure and statement presentations required until it was brought to its attention during the peer review. The firm intends to recall and reissue the financial statements and reports.

   **Recommendation**—The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm’s accounting and auditing personnel.

3. **Deficiency**—The firm’s quality control policies and procedures do not provide its personnel with a means of ensuring that all necessary procedures are performed on Employee Retirement Income Security Act (ERISA) engagements. During our review, we noted that the firm failed to adequately perform, including appropriately documenting, procedures related to benefit payments on ERISA engagements. The firm has subsequently performed the testing and documented its procedures.

   **Recommendation**—The firm should review and implement the requirements of specialized industries. This can be accomplished by the purchase and use of practice aids tailored to the industry.

4. **Deficiency**—The firm’s quality control policies and procedures require that financial statement reporting and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures as required by generally accepted accounting principles. The subject reports have been recalled and the financial statements are being revised.

   **Recommendation**—The firm should conduct a training session for all personnel to review the firm’s policies and procedures for utilizing financial statement reporting and disclosure checklists specific to the industry of the engagement, when available. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm’s engagement review checklist requiring the engagement partner to document his or her review of these checklists.

In our opinion, as a result of the significant deficiencies described above, and any additional significant deficiencies that might have come to our attention had we been able to review engagements from the divested office as described above, the system of quality control for the accounting and auditing practice of XYZ & Co. in effect for the year ended June 30, 20XX was not suitably designed or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. XYZ & Co has received a peer review rating of fail (with a scope limitation).

Smith, Jones and Associates

[Name of team captain’s firm]

** When considered together, the deficiencies rise to the level of significant deficiencies.
Appendix L

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each of the significant deficiencies discussed in the report. If the reviewed firm disagrees with one or more of the significant deficiencies, or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140 “Accepting System and Engagement Reviews”). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

November 30, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. All issues have been brought to the attention of the personnel at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.

We notified our peer reviewer that he would be unable to review the engagements performed by one of our firm’s four offices that divested from our firm during the peer review year. We have considered the consequences of this scope limitation on the results of our peer review.

1. Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been reminded of their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements, and the quality of audit documentation will be a focus of the concurring partner’s review.

2. The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits, development stage companies, and other industries that are similar to ours. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar.

3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use.

4. At the staff meeting mentioned above, the importance of proper use of the firm’s reporting and disclosure checklist was discussed, including the use of checklists for specialized industries. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm’s CPE plan for partners and managers now includes annual updates on disclosure issues.

‡ The response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.
\[ The numbering of responses, to coincide with the numbered comments in the report, is optional. \]
The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely postissuance review of engagements. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as mentioned above) has been sought, and this individual will be available for consultation and guidance.

Sincerely,

[Name of Firm]#

# Signed by an authorized partner of the firm.
Appendix M

Illustration of a Report With a Peer Review Rating of Pass in an Engagement Review

In the event of a scope limitation, include an additional paragraph (as described in paragraph 122j of the standards), and follow the illustrations for System Reviews with scope limitations (see appendixes D, G, and K).

[Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain’s firm letterhead for an association formed review team]

Engagement Review Report

September 30, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable administering entity]

We* have reviewed selected accounting engagements of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects. An Engagement Review does not include reviewing the firm’s system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at www.aicpa.org/prsummary.

Based on our review, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co. for the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. XYZ & Co has received a peer review rating of pass.

Smith, Jones and Associates
[Name of review captain’s firm on firm-on-firm review or association formed review team]

[or]

John Brown, Review Captain
[Committee-appointed review team review]

* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.
Appendix N

Illustration of a Report With a Peer Review Rating of Pass With Deficiencies in an Engagement Review

This illustration assumes that the firm had at least one other engagement that was reviewed that did not have a deficiency. Otherwise, this firm would have received a peer review rating of fail.

In the event of a scope limitation, include an additional paragraph (as described in paragraph 122j of the standards), and follow the illustrations for System Reviews with scope limitations (see appendixes D, G, and K).

[Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain’s firm letterhead for an association formed review team]

Engagement Review Report

September 30, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable administering entity]

We* have reviewed selected accounting engagements of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects. An Engagement Review does not include reviewing the firm’s system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at www.aicpa.org/prsummary.

We noted the following deficiencies†† during our review:

1. **Deficiency**—On one review engagement of a manufacturing client, we noted that the accompanying accountant’s report was not appropriately modified. The financial statements did not appropriately present or disclose matters in accordance with industry standards. The firm discussed the departure with the client and decided to recall its report and restate the accompanying financial statements in order to report in conformity with applicable professional standards in all material respects.

**Recommendation**—We recommend that the firm establish a means of ensuring that financial statements present or disclose matters in accordance with industry standards. Such means might include continuing professional education in the industries of the firm’s engagements and, although not required by professional standards, use of a comprehensive reporting and disclosure checklist on accounting engagements that is tailored for specialized industries, where applicable, or a cold review of reports and financial statements prior to issuance.

* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

†† The deficiencies and related recommendations provided are examples provided for illustrative purposes only.
2. **Deficiency**—On a review engagement we reviewed, we noted that the firm failed to obtain a management representation letter, and its working papers failed to document the matters covered in the accountant’s inquiry and analytical procedures. These deficiencies were identified on the firm’s previous review.

**Recommendation**—The firm should review and implement the requirements for obtaining management representation letters and the content of the accountant’s working papers on review engagements.

Based on our review, except for the deficiencies described above, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co. for the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. XYZ & Co. has received a peer review rating of pass with deficiencies.

Smith, Jones and Associates

[Name of review captain’s firm on firm-on-firm review or association formed review team]

[or]

John Brown, Review Captain

[Committee-appointed review team review]
Appendix O

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Pass With Deficiencies in an Engagement Review

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph 116 of standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140, “Accepting System and Engagement Reviews”). The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

October 31, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report on the Engagement Review of our firm’s accounting practice for the year ended June 30, 20XX.

1. As recommended by the reviewer, the entire staff has participated in continuing professional education related to reporting and disclosures, with a particular focus on areas specific to the industries that we are engaged in. We will be performing a preissuance review by a partner not associated with the engagement to make sure that the accountant’s report is appropriately modified when the financial statements depart from applicable professional standards.

2. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant’s inquiry and analytical procedures, is included in the working papers.

We believe these actions address the matters noted by the reviewer.

Sincerely,

[Name of firm]

‡ The response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.

|| The numbering of responses, to coincide with the numbered comments in the report, is optional.

* Signed by an authorized partner of the firm.
Appendix P

Illustration of a Report With a Peer Review Rating of Fail in an Engagement Review

The deficiencies in this illustration represent various examples and are not intended to suggest that the peer review would include this many engagements in the scope or require this number of deficiencies to warrant a report with a peer review rating of fail. However, each of the engagements reviewed would have one or more deficiencies in a report with a peer review rating of fail.

In the event of a scope limitation, include an additional paragraph (as described in paragraph 122j of the standards), and follow the illustrations for System Reviews with scope limitations (see appendixes D, G, and K).

[Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain’s firm letterhead for an association formed review team]

Engagement Review Report

September 30, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.
and the Peer Review Committee of the [insert the name of the applicable Administering Entity]

We* have reviewed selected accounting engagements of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects. An Engagement Review does not include reviewing the firm’s system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at www.aicpa.org/prsummary.

We noted the following significant deficiencies†† during our review:

1. Deficiency—Our review disclosed several failures to adhere to applicable professional standards in reporting on material departures from generally accepted accounting principles (GAAP) and in conforming to standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. The compilation and review engagements were in the construction and manufacturing industries, respectively. In addition, the firm did not obtain management representation letters on review engagements.

Recommendation—We recommend the firm establish a means of ensuring its conformity with applicable professional standards. In addition, we recommend the firm review and implement the requirements for obtaining management representation letters on review engagements. The firm should either participate in con-

* The report should use the plural we, us, and our even if the review team consists of only one person. The singular I, me, and my are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.
†† The deficiencies and related recommendations provided are examples provided for illustrative purposes only.
Continuing professional education in financial statement disclosures, use a reporting and disclosure checklist on accounting engagements (tailored if the financial statements are in a specialized industry), or conduct a pre-issuance review of the engagement by an individual not associated with the engagement prior to issuance.

2. **Deficiency**—During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented on a comprehensive basis of accounting other than generally accepted accounting principles. This deficiency was noted in the firm’s previous peer reviews.

**Recommendation**—We recommend that the firm review the reports issued during the last year and identify those reports that should have been modified to reflect a comprehensive basis of accounting other than generally accepted accounting principles. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

3. **Deficiency**—In the construction industry compilation engagements that we reviewed, disclosures of material lease obligations as required by generally accepted accounting principles were not included in the financial statements, and the omissions were not disclosed in the accountant’s reports.

**Recommendation**—We recommend the firm review and disseminate information regarding the disclosure requirements on specialized industries to all staff involved in reviewing or compiling financial statements. In addition, we recommend that the firm establish appropriate policies to ensure that all lease obligations are disclosed in financial statements reported on by the firm. For example, a step might be added to compilation and review work programs requiring that special attention be given to these areas.

4. **Deficiency**—During our review of the financial statements for a compilation engagement prepared under Statement on Standards for Accounting and Review Services No. 8, for management use only, we noted that the engagement letter did not include all of the information required by applicable professional standards.

**Recommendation**—The firm should review the professional standards governing the information to be included in engagement letters for financial statements prepared for management use only and make sure it conforms to those standards.

As a result of the deficiencies described above, we believe that the engagements submitted for review by XYZ & Co. for the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. XYZ & Co has received a peer review rating of fail.

Smith, Jones and Associates
[Name of review captain’s firm on firm-on-firm review or association formed review team]

[or]

John Brown, Review Captain
[Committee-appointed review team review]
Appendix Q

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in an Engagement Review

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each of the significant deficiencies. If the reviewed firm disagrees with one or more of the significant deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph 116 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140, “Accepting System and Engagement Reviews”). The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

October 31, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report on the Engagement Review of our firm’s accounting practice for the year ended June 30, 20XX.

To prevent the recurrence of the deficiencies noted by the reviewer and to prevent other such deficiencies from occurring, we will review the professional standards related to the deficiencies and ensure that the professional standards will be complied with on all future engagements.

Specifically, we have strengthened the engagement review to ensure that management representation letters are obtained for all review engagements performed by the firm.

All personnel who work on accounting engagements will be participating in continuing professional education in disclosures and reporting by December 31, 20XX, to address the disclosure and reporting deficiencies noted by the reviewer. In addition, we have started using a third-party reporting and disclosure checklist to ensure all reporting and disclosure matters are appropriately addressed. The reporting and disclosure checklist is tailored to specialized industries, where applicable.

The firm is now using third-party practice aids for guidance in compilations of financial statements for management use only, and this includes engagement letters that conform to professional standards to document the client’s understanding with respect to these engagements. We believe these actions are responsive to the deficiencies noted on the review.

Sincerely,

[Name of firm]

‡ The response should use the singular *I, me,* and *my* only when the reviewed firm is a sole practitioner.

‖ The numbering of responses, to coincide with the numbered comments in the report, is optional.

# Signed by an authorized partner of the firm.
Appendix R

Illustration of a Report with a Peer Review Rating of Pass in a Peer Review of Quality Control Materials or Continuing Professional Education Programs

Quality Control Materials‡‡ Review Report

April 30, 20XX

Executive Board
XYZ Organization
and the AICPA Peer Review Board’s National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [identify each item covered by the opinion or refer to an attached listing] (hereafter referred to as materials) of XYZ Organization (the organization) and the resultant materials in effect at December 31, 20XX. Our quality control materials‡‡ peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system and the organization’s compliance with that system based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials‡‡ Review are described in the standards at www.aicpa.org/prsummary.

In our opinion, the system of quality control for the development and maintenance of the quality control materials‡‡ of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX, to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials‡‡ referred to above are reliable aids at December 31, 20XX. Organizations can receive a rating of pass, pass with deficiency(ies), or fail. XYZ Organization has received a peer review rating of pass.

ABC & Co.|||

‡‡ Or Continuing Professional Education Programs, if applicable.
|| The report should be signed in the name of the team captain’s firm for firm-on-firm reviews or association formed review teams.
Appendix S

Illustration of a Report With a Peer Review Rating of Pass With Deficiencies in a Peer Review of Quality Control Materials or Continuing Professional Education Programs

Quality Control Materials‡‡ Review Report

April 30, 20XX

Executive Board
XYZ Organization
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [identify each item covered by the opinion or refer to an attached listing] (hereafter referred to as materials) of XYZ Organization (the organization) and the resultant materials in effect at December 31, 20XX. Our quality control materials‡‡ peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system and the organization’s compliance with that system based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review‡‡ are described in the standards at www.aicpa.org/prsummary.

We noted the following deficiencies†† during our review:

1. Deficiency—The organization’s policies and procedures for the development and maintenance of quality control materials‡‡ state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization’s policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that several questionnaires that had significant feedback as to the accuracy of the information of certain materials were not being read, summarized, or analyzed to determine whether the quality control materials‡‡ require change.

Recommendation—The organization should revise its policies and procedures for the development and maintenance of quality control materials‡‡ to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials‡‡ in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

2. Deficiency—The organization’s policies and procedures require that a technical review of all quality control materials‡‡ be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass. During our review, we noted that such a technical review was performed on all of the materials we reviewed except for the current edition of the general financial statement disclosure and reporting checklist, construction contractor disclosure checklist, and the checklist for personal financial statements, which had cold reviews performed by the developer. However, we were satisfied that the checklists are reliable aids.

‡‡ Or Continuing Professional Education Programs, if applicable.
†† The deficiencies and related recommendations provided are examples provided for illustrative purposes only.
Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

In our opinion, except for deficiencies described above, the system of quality control for the development and maintenance of the quality control materials‡‡ of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 20XX, to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials‡‡ referred to above are reliable aids at December 31, 20XX. Organizations can receive a rating of pass, pass with deficiency(ies), or fail. XYZ Organization has received a peer review rating of pass with deficiencies.

ABC & Co.‖

‡‡ Or Continuing Professional Education Programs, if applicable.
‖ The report should be signed in the name of the team captain’s firm for firm-on-firm reviews or association formed review teams.
Appendix T

Illustration of a Report With a Peer Review Rating of *Fail* in a Peer Review of Quality Control Materials or Continuing Professional Education Programs

The deficiencies and related recommendations provided are examples for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *fail*.

**Quality Control Materials‡‡ Review Report**

October 31, 20XX

Executive Board
XYZ Organization
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [identify each item covered by the opinion or refer to an attached listing] (hereafter referred to as *materials*) of XYZ Organization (the organization) and the resultant materials in effect at December 31, 20XX. Our quality control materials‡‡ peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system and the organization’s compliance with that system based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review‡‡ are described in the standards at www.aicpa.org/prsummary.

We noted the following significant deficiencies** during our review:

1. **Deficiency**—The organization’s policies and procedures for the development and maintenance of quality control materials‡‡ state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization’s policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that several questionnaires that had significant feedback as to the accuracy of the information of certain materials were not being read, summarized, or analyzed to determine whether the quality control materials‡‡ require change.

   **Recommendation**—The organization should revise its policies and procedures for the development and maintenance of quality control materials‡‡ to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials‡‡ in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

2. **Deficiency**—The organization’s policies and procedures require that a technical review of all quality control materials‡‡ be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to the professional standards the materials purport to encompass. During our review, we noted that such a technical review was not performed on the materials we reviewed. As a result, some of the materials were not up-to-date or were inaccurate, and thus were not reliable aids.

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‡‡ Or Continuing Professional Education Programs, if applicable.
** When considered together, the deficiencies rise to the level of significant deficiencies.
Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

In our opinion, as a result of the deficiencies described above, the system of quality control for the development and maintenance of the quality control materials‡‡ of XYZ Organization was not suitably designed and/or complied with during the year ended December 31, 20XX, to provide the users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials‡‡ referred to above are not reliable aids at December 31, 20XX. Organizations can receive a rating of pass, pass with deficiency(ies), or fail. XYZ Organization has received a peer review rating of fail.

ABC & Co.|||

‡‡ Or Continuing Professional Education Programs, if applicable.
||| The report should be signed in the name of the team captain’s firm for firm-on-firm reviews or association formed review teams.
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[The next page is 2001.]
# PRP Section 2000

**Peer Review Standards Interpretations**

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Notice to Readers

Interpretations of the AICPA Standards for Performing and Reporting on Peer Reviews (sec. 1000) are developed in open meetings by the AICPA Peer Review Board for peer reviews of firms enrolled in the AICPA Peer Review Program. Interpretations need not be exposed for comment and are not the subject of public hearings. These interpretations are applicable to firms (and individuals) enrolled in the program; individuals and firms who perform and report on peer reviews; entities approved to administer the peer reviews; associations of CPA firms, whose members are also AICPA members, authorized by the board to assist its members in forming review teams; and AICPA program staff. Interpretations are effective upon issuance unless otherwise indicated.

The prefix of each interpretation refers first to the paragraph number in the standards and second to the number of the interpretation relating to that paragraph. For example, Interpretation No. 5-3 would be the third interpretation of paragraph .05 of the standards. Not every paragraph of the standards has an interpretation, and thus there could be gaps in the numbering sequence of the interpretations. If more than one paragraph of the standards refers to a particular interpretation, then the interpretation’s prefix will refer to the first instance in the standards, and the interpretation would note what other paragraphs refer to the interpretation. Interpretations have been grouped by topic for reference purposes. For example, there are paragraph Interpretation Nos. 3-1 and 3-2 under the interpretation related to “Individual Enrollment in the Program.”

To the extent that new interpretations are added before the next version of the standards is issued, an interpretation may not be referred to in the standards with the phrase (see interpretations).

(Issued Through January 1, 2009)

Use of the Standards

1-1 Question—Paragraph .01 of the standards discusses that the standards are provided for those enrolled in the program. Who else may use these standards and who determines who enrolls in the program?

Interpretation—Although the standards are currently intended for AICPA members and their firms, state CPA societies, or other organizations that are approved by the AICPA Peer Review Board (board) to administer the program, AICPA members may also use these standards, as applicable, in administering peer reviews of non-AICPA firms (and individuals).

The board determines who is eligible for enrollment in the program.

There are professional organizations with peer review programs to assist government audit organizations in meeting their Government Auditing Standards peer review requirements. For example, the President’s Council on Integrity and Efficiency (PCIE) peer review program arranges reviews for the Federal Inspector General; the National Association of State Auditors, Comptrollers and Treasurers (NASACT) program arranges reviews for state auditors; and the Association of Local Government Auditors (ALGA) program arranges reviews for local government auditors. Each of these programs have established their own set of standards for conducting peer reviews and should be contacted for additional information when a peer reviewer is considering performing a peer review for one of their members because these standards are not intended for those purposes.

1-2 Question—Who is currently eligible to enroll in the program?

Interpretation—CPA firms in which at least one partner is a member of the AICPA and, in certain circumstances, individual AICPA members may enroll.

1 Although peer reviews performed under these circumstances are permissible, they are not currently considered as being performed under the auspices of the program and such firms are not enrolled in the program because they are not subject to certain AICPA directed activities, including oversight and “fair procedures.”
1-3 **Question**—What other guidance is available to those who use the standards?

**Interpretation**—Users of the standards have a number of other sources of guidance they can refer to, depending on their role in the program. The standards are principles based and form the foundation for more detailed guidance, encompassed in these interpretations, other guidance in the AICPA Peer Review Program Manual (including Supplemental Guidance and the Report Acceptance Manual), the Oversight Handbook, Administrative Manual, and Peer Review Alerts. There is no hierarchical structure to the standards, interpretations, and other guidance; guidance in each is equally significant. However, in the event of a conflict in interpreting and implementing these sources of guidance, the standards and interpretations take precedence.

Peer review course manuals, conference materials, and other miscellaneous items are also available for reference purposes.

### Individual Enrollment in the Program

3-1 **Question**—AICPA bylaws require individual CPAs (not the firm) to enroll in the program if they perform compilation services in firms or organizations not eligible to enroll in such a program. To reflect this requirement, paragraphs .03 and .05 of the standards refer to “firms and individuals in the program.” What is meant by “firms or organizations not eligible to enroll,” and can any AICPA member enroll in the program as an individual?

**Interpretation**—Under the AICPA Code of Professional Conduct ET appendix B, Council Resolution Concerning Rule 505—Form of Organization and Name (AICPA, Professional Standards, vol. 2), when the majority of the ownership of a firm, in terms of financial interests and voting rights, belongs to CPAs, it must enroll in the program. A firm or organization without CPA majority ownership (a non-CPA owned entity) would not be eligible to enroll in the program. The characteristics of such a firm are discussed in ET appendix B. Where the firm or organization is not eligible to enroll, such as due to a lack of majority ownership by CPAs, and where the individual AICPA member performs compilation services in the firm or organization, the AICPA member is required to enroll individually in the program. Only AICPA members meeting these criteria are able to enroll individually. Individual AICPA members who are only practicing with a firm that is eligible to enroll in the program may not enroll in the program individually.

3-2 **Question**—The standards, interpretations, and guidance materials for the program use the term *firm* throughout the materials. When an individual is appropriately enrolled in the program, how does the term *firm* apply to the enrolled individual, and are there any situations in which the standards, interpretations, or guidance materials are intended to be directed at the actual firm or organization that was not eligible to enroll?

**Interpretation**—As an alternative to rewriting all of the standards to reflect individual enrollment, the term *firm* as it appears in the standards should be applied to the enrolled individual and not the firm or organization in which the individual is practicing public accounting that was not eligible to enroll. Under the characteristics of a firm not eligible to enroll in the program, there must be a CPA who has ultimate responsibility for any financial statement compilation services; non-CPA owners cannot assume ultimate responsibility for any such services. In addition, any compilation report must be signed individually by a CPA and may not be signed in the name of the firm or organization.

3-3 **Question**—When performing the peer review of an enrolled individual in the program, what type of peer review would be required, what peer review materials would be used, and what changes would be necessary to the peer review report?

**Interpretation**—As with any peer review, the types of engagements performed dictate the type of peer review required. Because the enrolled individual could only be performing compilation services, this would only require an Engagement Review, although the individual could undergo a System Review. The current peer review materials can still be used as long as the peer reviewer indicates that the peer review was that of an enrolled individual and not of a firm or organization. Similarly, the report and, if applicable, the letter of response, as well as other peer review documents and correspondences, should be tailored so that it is very clear that only the individual is being peer reviewed and not the firm or organization.
3-4  Question—If an individual enrolled in the program receives a report with a peer review rating of pass (previously referred to as an unmodified report) on his or her Engagement Review and meets all other individual qualifications for service as a peer reviewer including independence considerations, can that individual perform peer reviews?

Interpretation—Yes. However, the individual alone would be the peer reviewer and not the firm or organization that was not eligible to enroll in the program. The peer reviewer should make this fact evident.

3-5  Question—As discussed in paragraph .144 of the standards, can a hearing panel decide to terminate an individual’s enrollment in the program?

Interpretation—Yes. The fair procedures related to hearings and appeals to the AICPA Joint Trial Board for individuals enrolled in the program would parallel the process for enrolled firms, including publication of termination in such form and manner as the AICPA Council may prescribe. If a hearing panel decides to terminate an individual’s enrollment in the program, that individual can appeal to the AICPA Joint Trial Board. When the fact that an individual’s enrollment has been terminated is published, the name of the firm or organization that was not eligible to enroll in the program with which the individual was practicing is not published.

Acquisitions and Divestitures and Their Effect on Peer Review Scope

5c-1  Question—Paragraph .05(c) of the standards requires that enrolled firms have independent peer reviews of their accounting and auditing practices. What is the effect on the scope of a firm’s peer review when there has been an acquisition of another practice or portion thereof, or a divestiture of a significant portion of the firm’s practice, during or subsequent to the firm’s peer review year?

Interpretation—When a reviewed firm has had an acquisition of another practice or a portion thereof or a divestiture of a significant portion of its practice during or subsequent to its peer review year, the reviewer, the reviewed firm, or both, should consult with AICPA staff prior to the commencement of the review to consider the appropriate scope of the review or other actions that should be taken.

A divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance with the system of quality control for reports issued under the firm’s name during that year. If the review team is able to review engagements of the divested portion of the reviewed firm’s practice, then the review team should review such engagements considered necessary to obtain an appropriate scope for the peer review. In such circumstances, an appropriate scope is one where a reasonable cross section of the firm’s practice is covered and the review covers all partners and significant industry areas that existed before the divestiture. The review team should carefully assess the effects the divestiture has on the scope of the peer review. A team captain or review captain who is considering whether a peer review report should be issued with an additional paragraph for a scope limitation due to a divestiture should consult with the administering entity.

Illustrations of System Review reports with a peer review rating of pass (with a scope limitation), pass with deficiencies (with a scope limitation), and fail (with a scope limitation) are presented in appendix D, Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review; appendix G, Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review; and appendix K, Illustration of a Report with a Peer Review Rating of Fail (With a Scope Limitation) in a System Review. Additional paragraphs included for scope limitations for engagement review reports follow the illustrations for System Reviews with scope limitations.

Resignations From and Reenrollment in the Program

5g-1  Question—Paragraph .05(g) of the standards discusses an enrolled firm’s responsibility to understand the board’s guidance on resignations from the program. Under what conditions may a firm resign from the program?
Interpretation—A firm whose peer review has not commenced may resign from the program by submitting a letter of resignation to the board. However, once a peer review commences, a firm will not be able to resign from the program except as stated in the following paragraph. A peer review commences when the review team begins field work, ordinarily at the reviewed firm’s office in a System Review, or begins the review of engagements in an engagement review. The submission by the firm of a request to resign from the program once its peer review has commenced is considered a failure to cooperate with the administering entity and may lead to the termination of the firm’s enrollment in the program by a hearing panel of the board.

A firm will be permitted to resign once its peer review has commenced when the firm submits a letter pleading guilty, acknowledging its noncooperation with the program, waiving its right to a hearing, and agreeing to allow the AICPA to publish, in such form and manner as the AICPA Council may prescribe, the fact that the firm has resigned from the program before completion of its peer review, evidencing noncooperation with the program. In addition, if (a) the firm has been notified of the reviewer’s or administering entity’s intent to issue or require a report with a peer review rating of pass with deficiencies or fail (previously referred to as modified or adverse reports) or (b) the reviewer or administering entity has knowledge of the discovery of an engagement that was not conducted in accordance with professional standards on which the firm must take, or would likely be required to take, action in accordance with professional standards, then the fact that the situation in items (a) or (b) of the preceding existed would also be published.

A firm that has been terminated from the program, or resigned under the conditions previously described, may reenroll in the program once it completes the delinquent action that caused the firm to be terminated. The administering entity and the board make the determination of whether the action is satisfactorily completed. If the firm is past its next peer review due date, the firm will be required to complete its subsequent peer review within 90 days of reenrolling.

Cooperating in a Peer Review

5h-1 Question—Paragraph .05(h) of the standards notes that firms (and individuals) enrolled in the program have the responsibility to cooperate with the peer reviewer, administering entity, and the board in all matters related to the peer review including arranging, scheduling, and completing the review and taking remedial, corrective actions as needed (paragraph .143 of the standards). Under what circumstances will a firm (or individual) be not cooperating, and what actions can be taken by the board for noncooperation?

Interpretation—The board has issued a resolution regarding dropping a firm’s enrollment from the program that is as follows:

AICPA Peer Review Board Resolution
(Adopted April 29, 1996 with amendments through January 1, 2009)

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA Standards for Performing and Reporting on Peer Reviews; and

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the AICPA Standards for Performing and Reporting on Peer Reviews to cooperate with the peer reviewer, administering entity and the AICPA Peer Review Board in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: A firm’s enrollment in the AICPA Peer Review Program will be dropped by the AICPA Peer Review Board, without a hearing, thirty days after the AICPA Peer Review Program notifies the firm by certified mail that the firm has failed to:

(1) Timely file requested information with the entity administering the firm’s peer review concerning the arrangement or scheduling of that peer review, prior to the commencement of the peer review,

(2) Timely submit requested information to the reviewer necessary to plan the firm’s peer review, prior to the commencement of the peer review.
(3) Have a peer review by the required date,

(4) Timely pay in full the fees and expenses of the review team formed by an administering entity, or

(5) Timely pay fees related to the administration of the program that have been authorized by the governing body of an administering entity.

The AICPA Peer Review Board may at its discretion decide to hold a hearing. Whether a hearing is held or not, a firm enrolled in the AICPA Peer Review Program has the right to appeal to the AICPA Joint Trial Board within 30 calendar days of being notified that the firm’s enrollment has been dropped.

Interpretation—The AICPA Peer Review Board has issued a resolution regarding terminating a firm’s enrollment from the AICPA Peer Review Program that is as follows:

AICPA Peer Review Board Resolution
(Adopted April 29, 1996 with amendments through January 1, 2009)

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA Standards for Performing and Reporting on Peer Reviews; and

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the AICPA Standards for Performing and Reporting on Peer Reviews to cooperate with the peer reviewer, administering entity and the AICPA Peer Review Board in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: A firm is deemed as failing to cooperate once the review has commenced by:

- Not responding to inquiries,
- Withholding information significant to the peer review, for instance but not limited to failing to discuss communications received by the reviewed firm relating to allegations or investigations in the conduct of accounting, auditing or attestation engagements from regulatory, monitoring or enforcement bodies,
- Not providing documentation including but not limited to the representation letter, quality control documents, engagement working papers, all aspects of functional areas,
- Not responding to MFCs or FFCs timely,
- Limiting access to offices, personnel or other,
- Not facilitating the arrangement for the exit conference on a timely basis,
- Failing to timely file the report and the response thereto related to its peer review, if applicable,
- Failing to cooperate during oversight, or
- Failing to timely acknowledge and complete required corrective actions or implementation plans.

The firm will be advised by certified mail that the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm’s enrollment in the AICPA Peer Review Program should be terminated. A firm enrolled in the AICPA Peer Review Program that has been notified that it is the subject of such a hearing may not resign until the matter causing the hearing has been resolved. After a hearing is held, a firm whose enrollment in the AICPA Peer Review Program has been terminated has the right to appeal the panel’s decision to the AICPA Joint Trial Board within 30 calendar days of the hearing; and

BE IT FURTHER RESOLVED: That a firm’s failure to cooperate with the administering entity would also include failing to receive a report with a rating of pass after (1) receiving at least two consecutive peer reviews prior to the third that had a report with a peer review rating of pass with deficiencies and/or fail (previously referred to as modified or adverse reports) AND (2) receiving notification via certified mail after the second consecutive report with a peer review rating of pass.
with deficiencies and/or fail (previously referred to as modified or adverse reports), that a third consecutive failure to receive a report with a peer review rating of pass (previously referred to as an unmodified report) may be considered a failure to cooperate with the administering entity. Report Reviews\(^2\) containing significant comments are considered equivalent to failing to receive a report with a peer review rating of pass (previously referred to as an unmodified report) for the purposes of this resolution.

BE IT FURTHER RESOLVED: The administering entity has the authority to determine if a firm’s response is substantive. If the administering entity determines that a response is not substantive, and the firm does not revise its response or submits additional responses that are not substantive as determined by the administering entity, this would also be deemed as a firm’s failure to cooperate.

BE IT FURTHER RESOLVED: That a firm’s failure to cooperate with the administering entity would also include failing to timely notify the administering entity that it is performing a type of engagement(s) or engagement(s) in an industry in which the firm had previously represented by written communication to the administering entity that it was no longer performing and had no plans to perform, in response to a related corrective action or implementation plan wherein the corrective action or implementation plan was eliminated by the administering entity based on the representation.

BE IT FURTHER RESOLVED: A firm’s enrollment in the AICPA Peer Review Program will be terminated for failure to cooperate in any of the preceding situations, without a hearing, upon receipt of a plea of guilty from the firm; and BE IT FURTHER RESOLVED: That pursuant to the AICPA Standards for Performing and Reporting on Peer Reviews, the fact that a firm’s enrollment in the AICPA Peer Review Program has been terminated, whether with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe.

Compilations Performed Under the Statement on Standards for Accounting and Review Services No. 1, Amended by Statement on Standards for Accounting and Review Services No. 8, Where No Compilation Report Is Issued

6-1 Question—Statement on Standards for Accounting and Review Services (SSARS) No. 1, Compilation and Review of Financial Statements, was amended by SSARS No. 8, Amendment to Statement on Standards for Accounting and Review Services No. 1, Compilation and Review of Financial Statements (AICPA, Professional Standards, vol. 1, AR sec. 100), to include compilations of financial statements where in very specific situations the accountant may document his or her understanding with the entity through the use of an engagement letter instead of issuing a compilation report. This approach is only available when the accountant submits unaudited financial statements to his or her client that are not expected to be used by a third party (in other words, compilation for management’s use only). AICPA bylaws state that firms (or individuals in certain situations) are only required to enroll in the program if they perform services that are within the scope of the AICPA’s practice-monitoring standards and issue reports purporting to be in accordance with AICPA Professional Standards. Therefore, for purposes of individual AICPA membership admission and retention, firms (or individuals) that only perform these types of compilations, where no report is issued and no other engagements within the scope of peer review as discussed in paragraph .06 of the standards, would not be required to enroll in the program. Would the compilations for management’s use only be subject to peer review when the firm is already enrolled in the program because, for example, it performs services and issues reports on other engagements that are within the scope of the standards?

Interpretation—Yes. For firms enrolled in the program, compilations for management’s use only as described in SSARS No. 8 would fall within the scope of peer review. The standards (and Statement on Quality Control Standards No. 7, A Firm’s System of Quality Control [AICPA, Professional Standards, vol. 2, QC sec. 10]) include, within the definition of an accounting and auditing practice, all engagements covered by SSARSs except where SSARSs provide an exemption from those standards.

\(^2\) Although standards no longer permit the performance of Report Reviews as of January 1, 2009, a firm’s last peer review could have been a Report Review.
6-2 **Question**—The current standards and guidance materials are written referring to reports throughout and do not consider an engagement performed under SSARS No. 8 where a compilation report is not issued. What general guidance should be followed by peer reviewers?

**Interpretation**—For purposes of the program only, the required documentation of the understanding in the engagement letter, as detailed in SSARS No. 8, should be treated as though it was a report (as reports are discussed and referred to in the standards). This documentation would not be considered a report for bylaw purposes.

6-3 **Question**—Specifically, what should the peer reviewer be reviewing on such an engagement in a System or Engagement Review?

**Interpretation**—SSARS No. 8 requires the accountant to document the understanding of the engagement with the entity through the use of an engagement letter. The reviewer is to inquire about the engagement letter to determine that it documents that understanding. The reviewer should also review the financial statements to determine that the required restriction of their use is on each page. Except for the restriction of use, the reviewer should not be reviewing the financial statements, disclosures, or supplementary information for accuracy, appropriateness, or conformity with professional standards.

6-4 **Question**—Must a peer reviewer select such an engagement in a System or Engagement Review?

**Interpretation**—No. This engagement is not considered a different level of service. It is a compilation that either contains all disclosures required by generally accepted accounting principles (GAAP) or another comprehensive basis or the disclosures are omitted. The standards already discuss the engagement selection process for such engagements in an Engagement Review. In addition, a System Review requires the peer reviewer to use a risk-based approach when selecting engagements. SSARS No. 8 does not change the existing engagement selection process.

6-5 **Question**—Should the standard language in the peer review report be tailored on a System or Engagement Review, if such engagement(s) are selected for review, to reflect the fact that these are compilations with documentation requirements and issued without a compilation report?

**Interpretation**—No.

### Performing System Reviews at a Location Other Than the Reviewed Firm’s Office

8-1 **Question**—Paragraph .08 of the standards states that the majority of the procedures in a System Review should be performed at the reviewed firm’s office. What criteria have been established by the board for procedures to be performed at a location other than the reviewed firm’s office?

**Interpretation**—If the review can reasonably be performed at the reviewed firm’s office, it should be. Although certain planning procedures may be performed at the peer reviewer’s office, it is expected that a majority of the peer review procedures, including the review of engagements, testing of functional areas, interviews, and concluding procedures should be performed at the reviewed firm’s office.

However, it is recognized that there are some situations that make an on-site peer review cost prohibitive or extremely difficult to arrange, or both. In these situations, if the firm and reviewer mutually agree on the appropriateness and efficiency of an approach to the peer review such that it can be performed at a location other than the reviewed firm’s office, then the reviewer can request the administering entity’s approval to perform the review at a location other than the reviewed firm’s office. This request should be made prior to the commencement of fieldwork, and the firm and reviewer should be prepared to respond to the administering entity’s inquiries about various factors that could affect their determination. These factors, which are not mutually exclusive and will be considered judgmentally, include but are not limited to:

- the availability of peer reviewers qualified to review the firm, including whether they have the experience in the industries and related levels of service for which the firm practices, whether they are independent of the firm and not, for instance, competitors within the same close geographic area, and whether the firm is reasonably accessible to those reviewers.
• whether the review conducted at the reviewer’s office or another agreed-upon location can still achieve the objectives of a System Review.

• whether the results are expected to be the same as they would be if the peer review was performed at the reviewed firm’s office.

• the size of the reviewed firm, including the number of personnel and where they perform their work (for instance, whether they work solely at clients’ offices and the firm does not have its own office).

• the number of engagements covered by the Statements on Auditing Standards (SASs), Government Auditing Standards, examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs), or audits of non-Securities and Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).

• the ability of the reviewed firm and the peer reviewer to hold one or more effective meetings by telephone to discuss the firm’s responses to the quality control policies and procedures questionnaire and other practice aid questionnaires (including various interviews), Engagement Review results, the reviewer’s conclusions on the peer review, and any recommended corrective actions.

• the prior peer review results of the firm, including whether the firm received a report with a peer review rating of pass with deficiencies or fail (formerly known as modified or adverse reports) on its last System or Engagement Review (or a report review with significant comments), or if it is the firm’s first System Review.

• whether the firm is able to effectively comply with the reviewer’s requests for materials to be sent to the reviewer prior to the review (except as noted in the following list). Those requests should include, in addition to materials outlined in section 4100, Instructions to Firms Having a System Review, the following materials:
  a. All documentation related to the resolution of independence questions (1) identified during the year under review with respect to any audit or accounting client or (2) related to any of the audit or accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period
  b. The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the firm acted as principal auditor or accountant
  c. The most recent representations received from the sole practitioner concerning his or her conformity with applicable independence requirements
  d. A written representation, dated the same as the peer review report, as described in paragraph .05(f) and appendix B of the standards
  e. Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client
  f. A list of relevant technical publications used as research materials, as referred to in the quality control policies and procedures questionnaire
  g. A list of audit and accounting materials, if any, identified in response to the questions in the “Engagement Performance” section of the quality control policies and procedures questionnaire
  h. Continuing professional education (CPE) records sufficient to demonstrate compliance with state, AICPA, and other regulatory CPE requirements
  i. The relevant accounting and auditing documentation and reports on the engagements selected for review
  j. Documentation of the firm’s monitoring results for each year since the last peer review or enrollment in the program
  k. Any other evidential matter requested by the reviewer
The reviewed firm should understand that in the event that matters are noted during the review of selected engagements, the scope of the review may have to be expanded before the review can be concluded.

Peer Reviews To Be Administered by the National Peer Review Committee

11-1 Question—Paragraphs .11 and .128 of the standards note that peer reviews intended to meet the requirements of the program should be carried out in conformity with the standards under the supervision of a state CPA society, group of state CPA societies, the AICPA Peer Review Board’s National Peer Review Committee (National PRC), or other entity (hereinafter, administering entity) approved by the board to administer peer reviews. Under what circumstances are peer reviews administered by the National PRC? What other criteria relate to the firms previously enrolled in the Center for Public Company Audit Firms Peer Review Program (CPCAF PRP) and to that program’s peer reviewers?

Interpretation—Firms are required to have their review administered by the National PRC if they meet either or both of the following criteria:

a. The firm is required to be registered with and inspected by the PCAOB.

b. The firm performs audits of non-SEC issuers pursuant to the standards of the PCAOB.

Firms that are not required to have their review administered by the National PRC may choose to do so. However, such firms are subject to the National PRC’s administrative fee structure and should familiarize themselves with that structure prior to making such a decision.

If corrective or monitoring actions were imposed by the CPCAF Peer Review Committee on a CPCAF PRP firm or peer reviewer, those actions will carryover to the firm’s enrollment and the peer reviewer’s involvement in the AICPA Peer Review Program, unless the actions were specific to the CPCAF PRP, as determined by the board.

Timing of Peer Reviews

13-1 Question—Paragraph .13 of the standards notes that a firm’s due date for its initial peer review is ordinarily 18 months from the date it enrolled in the program or should have enrolled, whichever date is earlier. What is meant by “should have enrolled?” In addition, what is the due date for a firm that was previously enrolled in CPCAF PRP?

Interpretation—When an individual becomes an AICPA member, and the services provided by his or her firm (or individual) fall within the scope of the AICPA’s practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA Professional Standards, the firm (or individual) should enroll in the program. If the firm (or individual) does not initially provide services falling within the scope of the standards, when the firm (or individual) first performs an engagement that falls under the scope, the firm (or individual) is required to enroll in the program. In either case, the firm (or individual) should immediately notify the administering entity so that an appropriate due date may be determined. The administering entity will consider the firm’s (or individual’s) practice, the year-ends of their engagements, when the engagements were performed, and the number and type of engagements to be encompassed in the review, in determining an appropriate due date. A firm’s subsequent peer review ordinarily will be due three years and six months from this peer review year-end.

If a firm’s most recent peer review was under the auspices of the CPCAF PRP, it may defer the due date for its next review until three years and six months from the year-end of that peer review.

14-1 Question—Paragraph .14 of the standards states that when a firm performs its first engagement requiring it to have a System Review, the firm’s next due date will be 18 months from the year-end of the engagement. What does this mean?

Interpretation—When a firm, subsequent to the year-end of its Report or Engagement Review, performs an engagement under the SASs, Government Auditing Standards, examinations of prospective
financial statements under the SSAEs, or an audit of a non-SEC issuer performed pursuant to the standards of the PCAOB that would have required the firm to have a System Review, the firm should (a) immediately notify the administering entity and (b) undergo a System Review. The System Review ordinarily will be due 18 months from the year-end of the engagement (for financial forecasts and projections: 18 months from the date of report) requiring a System Review or by the firm’s next scheduled due date, whichever is earlier. However, the administering entity will consider the firm’s practice, the year-ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review, as well as use its judgment, to determine the appropriate year-end and due date. Firms that fail to immediately inform the administering entity of the performance of an engagement previously described will be required to participate in a System Review with a peer review year-end that covers the engagement. A firm’s subsequent peer review ordinarily will be due 3 years and 6 months from this peer review year-end.

18-1 Question—Paragraph .18 of the standards requires that a firm maintain the same year-end on subsequent peer reviews (which is 3 years from the previous year-end) and the same review due date (which is 3 years from the previous due date). What options does a firm have to change its year-end or extend the due date?

Interpretation—A firm is expected to maintain the same year-end on subsequent peer reviews. Nevertheless, circumstances may arise that may influence a firm to want to change its year-end. For instance, the nature of the firm’s practice may change or they may reevaluate their current year-end and determine as a result that a different year-end is more practical. In such situations, a firm may change its year-end only with prior, written approval of the administering entity.

Administering entities will consider many factors including the nature of the firm’s practice (for instance, when audits are being performed and issued so they will be available for the peer review, tax season, and so on). However, a change in year-end will usually not be approved when there is a public interest concern. This may occur when the firm is requesting the change in an attempt to have an Engagement Review rather than a System Review, or when a change in year-end would cause the firm’s only engagement meeting the criteria described in Interpretation 63-1, (engagements conducted in accordance with Government Auditing Standards (GAS, also known as the Yellow Book), audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA), or audits of an insured depository institution subject to the FDIC Improvement Act of 1991) to fall out of the peer review selection process.

Ordinarily, the firm’s due date for the subsequent peer review will be three years and six months from the year-end of the current peer review.

A firm is expected to maintain the same review due date. Nevertheless, circumstances may arise that require the firm to extend its review due date. In such situations, a firm may do so only with prior, written approval of the administering entity, and the extended review due date only applies to the current review. Extensions for subsequent review’s due dates must be reapplied for.

Extensions of a review due date by more than three months should be rare. However, in some situations, due to the size of the firm, the complexity of the peer review, and whether or not the review team is integrating peer review procedures with the firm’s internal inspection procedures, it is not unusual for a peer review to occur over a number of months. In such situations, a firm whose peer review has oversight performed by the administering entity may extend its review due date by up to six months with prior, written approval of the administering entity.

In any of the situations previously described, it is the responsibility of the firm to ensure that any change in the review due date (or year-end) approved by the administering entity is recognized by any other organizations requiring it to have a peer review. This includes but is not limited to state boards of accountancy, the Government Accountability Office, and other regulators.

18-2 Question—Situations may arise where circumstances out of a firm’s control, such as a natural disaster or other form of destruction, affect a firm’s operations and thus its ability to comply with some or all of the peer review requirements, including timing of the peer review. What should a firm do in those circumstances?
Interpretation—The administering entity should be consulted, when possible, about how the firm believes the situation has affected or will affect their peer review. The administering entity will assist in determining whether there could be a possible scope limitation due to the exclusion of any affected engagements or offices, the need for a change in year-end or an extension of due date, and the effect on the firm’s continuing peer review cycle. These situations will be considered on a case-by-case basis.

Independence, Integrity, and Objectivity

21-1  Question—Paragraph .21 of the standards states that independence in fact and in appearance should be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review and that the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities. What criteria have been established by the board?

Interpretation—The following criteria have been established:

a. Reciprocal Peer Reviews
   Reciprocal peer reviews are not permitted. This means that a firm may not perform a review of the firm that performed its most recent review. It also means that a reviewer may not serve on a review team carrying out a review of a firm whose personnel participated in the most recent review of that reviewer’s firm.

b. Relationships With Clients of the Reviewed Firm
   Review team members and, in the case of a review performed by a firm, the reviewing firm and its personnel are not precluded from owning securities in or having family or other relationships with clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm’s client shall not review the engagement of that client because that individual’s independence would be considered to be impaired. In addition, the effect on independence of family and other relationships and the possible resulting loss of the appearance of independence must be considered when assigning team members to engagements.

c. Relationships With the Reviewed Firm
   Reviewing firms should consider any family or other relationships between the management at organizational and functional levels of the reviewing firm and the firm to be reviewed and should assess the possibility of an impairment of independence.

   If the fees for any services provided between firms, whether paid by the referring firm or by the client, involving the reviewed firm and the reviewing firm or the firm of any member of the review team are material to any of those firms, independence for the purposes of this program is impaired.

   If arrangements exist between the reviewed firm and the reviewing firm or the firm of any member of the review team whereby expenses, office facilities, or personnel are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, frequent CPE programs, extensive consultation, preissuance reviews of financial statements and reports, or audit and accounting manuals. In such circumstances, the firms involved are sharing materials and services that are an integral part of their systems of quality control. However, the impairment would be removed if an independent peer review was made aware of the shared materials (such as CPE programs or an audit and accounting manual) before the peer review commenced and if that independent peer review was accepted by an approved body (determined by the board) before that date.

21-2  Question—Can an individual from Firm A be engaged by Firm B to conduct monitoring of Firm B’s accounting and auditing practice or a consulting review and then be engaged to perform Firm B’s subsequent peer review? What about another individual from Firm A?

Interpretation—In both cases, yes, except if the monitoring of Firm B’s accounting and auditing practice or consulting review is performed for the year immediately preceding or during the peer review year.
21-3 Question—Firm A is engaged by Firm B to perform a quality control document review, a preliminary quality control procedures review, or both. Could Firm A then be engaged to perform a peer review of Firm B?

Interpretation—Yes, except if the quality control document review, preliminary quality control procedures review, or both are performed for the year immediately preceding or during the peer review year.

21-4 Question—Firm A is engaged to perform the peer review of Firm B. However, Firm A performed a preissuance review on one of Firm B’s reports and accompanying financial statements for an accounting or auditing engagement during the period since the last peer review year-end. Can Firm A perform the peer review of Firm B?

Interpretation—Yes, unless the preissuance review(s) was performed on an engagement within the year immediately preceding or during the peer review year.

21-5 Question—Firm A audits the financial statements of Firm B’s pension plan. Could either firm perform a peer review of the other?

Interpretation—Yes, provided that the fees incurred for the audit are not material to either of the firms. An audit of financial statements is a customary service of an accounting firm. However, reciprocal peer reviews are not permitted.

21-6 Question—A partner in Firm A serves as an expert witness for Firm B or for a party opposing Firm B. Are Firms A and B independent of each other?

Interpretation—Yes, provided that the fee is not material to either firm and provided that the outcome of the matter, if adverse to Firm B, would not have a material effect on its financial condition or its ability to serve clients.

21-7 Question—Firm A has an arrangement with Firm B whereby Firm A sends its staff to CPE programs developed by Firm B. Can Firm B perform a peer review of Firm A?

Interpretation—No, unless Firm B has had its CPE programs peer reviewed by an independent party (see standards for guidance in “Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs”). If such a peer review is not undertaken and reported on before the peer review of Firm A commences, Firm B would not be considered independent for purposes of conducting the peer review of Firm A. However, occasional (infrequent and not part of Firm A’s regular CPE training plan) attendance by representatives of Firm A at programs developed by Firm B would not preclude Firm B from reviewing Firm A.

21-8 Question—Firm A occasionally consults with Firm B with respect to specific accounting, auditing, or financial reporting matters. Are Firms A and B independent of each other?

Interpretation—Yes, unless the frequency and extent of the consultation is such that Firm B is an integral part of Firm A’s consultation process.

21-9 Question—Firm B uses Firm A’s accounting and auditing manual as its primary reference source. Can Firm B perform a peer review of Firm B, or can Firm A perform a peer review on a material used by Firm B as a primary reference source peer reviewed by an independent party. The peer review of the materials should be similar to the review of quality control materials in associations and should meet the same peer review performance and reporting standards. If such a peer review is not undertaken and reported on before the peer review of Firm A commences, Firm A would not be considered independent for purposes of conducting the peer review. However, if the manual is used only as a part of the firm’s overall reference library, independence would not be impaired. This interpretation also applies to providers of quality control materials or CPE programs.

21-10 Question—Firm A performs a peer review of Firm B. Subsequently, Firm C performs a peer review of Firm B, and Firm D of Firm A. Would the restriction against reciprocity be violated if Firm B were now to review Firm A?

Interpretation—No. Although the standards state that reciprocal peer reviews are not permitted, that provision is intended only to prohibit back-to-back peer reviews when each firm has not had an...
intervening peer review by another firm or team. However, this may be a situation where the administering entity elects to perform oversight.

21-11 Question—A manager from Firm A served as a team member on the most recent peer review of Firm B. Can a reviewer from Firm B serve on the peer review team of Firm A?

Interpretation—No, because that would be considered a reciprocal review.

21-12 Question—Can an individual from Firm A be engaged by Firm B to perform a peer review of Firm B and subsequently be engaged the following year(s) to conduct an inspection of Firm B’s accounting and auditing practice or a consulting review? What about another individual from Firm A?

Interpretation—In both cases, yes; however, individual(s) from Firm A would not be eligible to perform Firm B’s subsequent peer review except as noted in Interpretation No. 21-2.

21-13 Question—Firm A included the qualifications of Firm B in a proposal for one or more specific engagements. Could either firm perform a peer review of the other following a successful proposal?

Interpretation—No, unless any fees paid to Firm B are not material to either of the firms; the firms do not share directly or indirectly, or participate in, the profits of the other; the firms do not share fees, office facilities, or personnel; the firms do not have joint ownership of a for-profit entity; and the firms do not exercise any direct or indirect management control over the professional or administrative functions of the other.

21-14 Question—A group of firms (whether or not it uses a common name) places an advertisement in a trade journal indicating that its members are “specialists” and provide the “best advice.” Although the firms are not specifically identified in the advertisement, a toll-free telephone number or Internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

Interpretation—No, because the group is marketing or selling services to potential clients on behalf of the firms, where the representations about the firms and the quality of their services are not objective or quantifiable.

21-15 Question—A group of firms (whether or not it uses a common name) places an advertisement in a trade journal. The advertisement indicates the number and geographical location of the member firms and states that its members provide professional accounting and auditing services to over 2,500 industry clients nationwide and that each of the member firms passed its most recent peer review. A toll-free telephone number or Internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

Interpretation—Yes, provided the group has submitted the Association Information Form (AIF) to the board and has received notification that the AIF was accepted because the representations in the advertisement are objective or quantifiable.

21-16 Question—What would be objective and quantifiable with respect to representations made in advertisements by an association of CPA firms, such as in brochures, pamphlets, Web sites, and the like?

Interpretation—Representations made in advertisements by an association of CPA firms would be considered objective and quantifiable provided that the association of CPA firms maintains documentation to support the representations and such documentation is available for review by the board. For example, if an association of CPA firms advertises that its members provide professional accounting and auditing services to a designated number of industry clients in a certain geographic area, some form of client listing should be maintained in support of the representation. If an association of CPA firms advertises that each of its member firms have passed peer review, letters from the entities accepting the peer review documents of those firms should be maintained. Representations should not be made by an association of CPA firms in their advertisements that designate themselves as “the best,” “the finest,” “uniquely qualified,” “prestigious,” “elite,” or other similar language. These superlative descriptions are generic words and terms that are too subjective. Also, such representations in advertisements by an association of CPA firms cannot be readily supported by any form of documentation that can be reviewed.
21-17 **Question**—Certain members of an association (that is, parent association) may form a partnership or subassociation, which is a grouping of association member firms for the purpose of joint marketing of products or services. Can members of the subassociation perform peer reviews on firms of the parent association that are not involved in the activities of the subassociation?

**Interpretation**—Although a member of a subassociation cannot peer review another member of the same subassociation, the existence of a subassociation by itself should not disqualify members of the subassociation from performing peer reviews of nonaffiliated member firms of the parent association. However, members of a subassociation should not perform peer reviews on firms of the parent association that are not involved in the activities of the subassociation if there appears to be a lack of independence, such as the following:

a. The parent association has a direct or material indirect financial interest in the subassociation.

b. The subassociation has the same or a similar name of the parent association.

c. The parent association and the subassociation share and use the same facilities, such as offices, telephone numbers, employees, letterhead, and marketing materials.

21-18 **Question**—Is independence impaired when the reviewers’ firm and the firm subject to peer review have arrangements with the same non-CPA owned entity (including all entities owned or controlled by a common parent company) where the partners of both firms are also employees of that non-CPA owned entity and remit revenues or profits, or both, to the non-CPA owned entity for payment of the lease of employees, office facilities, equipment, or other services provided by the non-CPA owned entity?

**Interpretation**—Yes, independence is impaired, and the firms involved with the non-CPA owned entity are precluded from participating in the peer review of one another or of other firms related to the non-CPA owned entity.

21-19 **Question**—A state CPA society places an advertisement promoting the CPA profession without identifying any specific firms. May firms whose personnel belong to that state CPA society provide peer review for each other?

**Interpretation**—Yes.

21-20 **Question**—Firm A and Firm B have shared office facilities for the last several years. Due to the growth of both firms, Firm B moved into new offices on January 1, 2007. In March 2009, Firm A engaged Firm B to perform the peer review of Firm A. Firm A’s peer review year-end is December 31, 2008. Can Firm A perform the peer review of Firm B?

**Interpretation**—Yes, because the firms did not share office facilities within the current peer review year and any subsequent periods thereafter.

Illegal Acts

23-1 **Question**—Paragraph .23 of the standards discusses the obligation for all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner. What responsibilities do reviewers have to detect illegal acts during a peer review?

**Interpretation**—Reviewers have no responsibility to detect illegal acts that have either a direct or indirect effect on the firm’s ability to practice public accounting. If a reviewer comes across an illegal act during a review, he or she should consider consulting with his or her attorney, and consult with appropriate AICPA staff.

Peer Review Documentation and Retention Policy

24-1 **Question**—Paragraph .24 of the standards notes peer review documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. How should the peer review be documented to comply with this requirement?
Interpretation—Among other things, peer review documentation includes records of the planning and performance of the work, the procedures performed, and conclusions reached by the peer reviewer. This includes documenting the risk assessment, the understanding of the firm’s system of quality control, and tests of compliance (including checklists for the review of engagements and staff interviews when there are professional staff). The board has authorized the issuance of materials and checklists, including checklists for the review of engagements, to guide team captains, review captains, and other members of the review team in carrying out their responsibilities under these standards.

Ordinarily, materials and checklists developed and issued by the board are to be used by reviewers in carrying out their responsibilities under these standards. Based on its understanding of the reviewed firm’s system of quality control and its assessment of peer review risk, the review team should determine if materials and checklists issued by the board are not sufficiently comprehensive to use on the review. In this event, other materials and checklists may be used; however, they must include the same elements as, and must be more comprehensive than those versions issued by the board. Reviews conducted utilizing alternate materials and checklists will require advance notice to the administering entity and the review must be subject to on-site oversight. It is the responsibility of the team captain or review captain to ensure that the materials and checklists used meet these standards. Failure to complete all relevant materials and checklists may create the presumption that the review has not been performed in conformity with these standards, and thus the administering entity should be consulted in advance of use of any equivalents to assist in reaching these conclusions.

25-1 Question—Paragraph .25 of the standards notes that all peer review documentation should not be retained for an extended period of time after the peer review’s completion, with the exception of certain documents that are maintained until the subsequent peer review’s acceptance and completion. What period of time should peer review documentation be retained and what documentation should be maintained until the subsequent peer review’s acceptance and completion?

Interpretation—Peer review documentation prepared during system and Engagement Reviews, with the exception of those documents described in the following paragraphs, should be retained by the reviewing firm, the administering entity, and the association in an association formed review team (if applicable) until 120 days after the peer review is completed (see Interpretation No. 146-1).

The reviewing firm and administering entities should retain the following documents until 120 days after the firm’s subsequent peer review has been completed:

a. Peer review report and the firm’s response, if applicable
b. Letter notifying the firm that its peer review has been accepted
c. Letter indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions, if applicable. The administering entity should retain the version signed by the firm
d. Letter notifying the firm that certain required actions have been completed, if applicable
e. Finding for Further Consideration (FFC) forms, if applicable
f. Letter requesting the reviewed firm’s completion of an implementation plan, if applicable (the administering entity should retain the version signed by the firm)
g. Letter notifying the firm that the implementation plan has been completed, if applicable

Administering entities may also retain the following administrative materials until the firm’s subsequent peer review has been completed:

a. Engagement letters
b. Scheduling information
c. Review team appointment acceptance letters
d. Due date extension and year-end change requests and approvals
e. Settlement agreements received by the administering entity from the AICPA Professional Ethics Division related to individual members’ performance on accounting, auditing, or attestation engagements
The administering entity’s peer review committee or the board may indicate that any or all documentation for specific peer reviews should be retained for a longer period of time than specified in the preceding paragraphs because, for example, the review has been selected for oversight. All peer review documentation is subject to oversight or review by the administering entity, the board, or other bodies the board may designate, including their staff. All peer review documentation prepared by the administering entities is subject to oversight.

If a firm has been enrolled in an institute-approved practice-monitoring program but has not undergone a peer review in the last three years and six months since its last peer review because the firm has not performed engagements and issued reports requiring it to have a peer review, the documents previously noted should still be retained. The administering entity may also choose to retain the administrative documents noted, as applicable. The documents for a firm that has not been enrolled in an Institute-approved practice-monitoring program for the last consecutive three years and six months are not required to be retained.

25-2  

**Question**—The standards and interpretations refer to **acceptance** and **completion** of peer reviews in several contexts, such as in relation to the retention policy for peer review documentation (paragraph .25 of the standards), when a review can be publicized (paragraph .146) and the qualifications for service as a peer reviewer (paragraph .31[c]) and a report acceptance body member (Interpretation No. 132-1). Is there a difference between the acceptance and completion dates of a peer review?

**Interpretation**—There is no difference in those cases in which the report and letter of response thereto, if applicable (peer review documents), are presented to the administering entity’s peer review committee, and the committee requires no additional corrective action(s) related to the deficiencies or significant deficiencies in a peer review report with a rating of **pass with deficiency(ies)** or **fail** by the reviewed firm, nor are there any revisions necessary to the peer review documents. In this circumstance, the date that the committee (or technical reviewer in most cases on an Engagement Review) makes this decision is defined as the acceptance date, and is also defined as the completion date of the peer review. The acceptance date is noted in a letter from the administering entity to the reviewed firm.

There is a difference between the acceptance and completion dates of a peer review when the peer review documents are presented to the committee and the committee does not require any revisions to the peer review documents but does require the reviewed firm to take corrective action(s) related to deficiencies or significant deficiencies in the report. In this circumstance, the acceptance date is defined as the date that the reviewed firm signs the letter from the administering entity agreeing to perform the required corrective action(s). The completion date is then defined as the date the committee decides that the reviewed firm has performed the agreed-to corrective action(s) to the committee’s satisfaction and the committee requires no additional corrective action(s) by the reviewed firm. This date is noted in a final letter from the administering entity to the reviewed firm.

In either of the situations described in the preceding paragraphs, the committee may require revisions to any of the peer review documents or have other matters that require resolution. In those cases, a review may not be deemed as accepted nor completed until such date that the peer review document(s) is (are) revised or the matter is resolved to the satisfaction of the committee. When there are required revisions or other matters that require resolution and a follow up action has been requested by the committee, the date of acceptance is the later of the date the required revisions are made or the matters are resolved, OR the date the firm has agreed to the follow up action.

**Associations of CPA Firms and Association Formed Review Teams**

26-1  

**Question**—Paragraph .26 of the standards states that a review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or an association of CPA firms authorized by the board to assist its members in forming review teams (an association formed review team). What criteria have been established by the board for association formed review teams?

**Interpretation**—Associations of CPA firms include any group, affiliations, or alliances of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services.
A member firm of an association may conduct a peer review of another association-member firm enrolled in the program, provided that the association receives annual approval from the board. The National PRC administers this process on behalf of the board. The association must submit an AIF to the National PRC that must be approved by the board prior to any aspect of the review being planned, scheduled, or performed.

The AIF contains questions regarding general information about the association, independence matters, and whether the association requests to be approved to assist its members in the formation of review teams, provide technical assistance to such review teams, or do both. All review teams must still be approved by the administering entity. The AIF is subject to oversight by the board.

The approval of the AIF specifically relates to AICPA members of an association having the ability to perform peer reviews of other AICPA members in the same association enrolled in the program.

Furthermore:

a. Annual approval of the AIF does allow, where the association has answered the specific questions making such a request, the association the ability to assist its members in the formation of review teams (association formed review teams) or to provide technical assistance to such review teams.

b. The reviewed firm and administering entity, not the association, is ultimately responsible for ensuring that its peer review is scheduled, performed, and completed in a timely manner.

c. Annual approval of the AIF does not grant the association the authority to administer the program; therefore, the association is not deemed an approved administering entity.

d. Approval of the AIF is not an endorsement of, approval of, or has any applicability to a separate peer review program that an association may conduct or administer for non-AICPA members.

e. If the association makes any representations (in brochures, directories, pamphlets, Web pages, or any marketing or selling materials regarding its member firms in obtaining engagements) such representations are objective and quantifiable.

For a member firm of an association to conduct peer reviews of another association-member firm enrolled in the program, in addition to other peer review independence requirements, the association and its member firms must meet the following independence criteria:

a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. For purposes of this requirement, professional services include accounting, tax, personal financial planning, litigation support, and professional services for which standards are promulgated by bodies designated by AICPA Council.

b. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements unless the representations are objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.

c. Referral or participating work among member firms is arranged directly by the firms involved.

d. The association does not have any direct or material indirect financial interest or involvement in its member firms in sharing fees generated by members through the sale of products or services.

e. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

For a member firm of an association to conduct a peer review of another association-member firm enrolled in the program when quality control materials or CPE programs used by its members constitute association materials, the association shall arrange for an independent triennial peer review of those materials (see paragraphs .154–.178 of the standards). Therefore, firms that share such materials are advised to consult with AICPA program staff if an independent review of the shared materials appears necessary.
An association formed review team,

a. requires that a majority of the review team members, including the team captain in a System Review, and all members in an Engagement Review, be from association member firms.

b. performs peer reviews in accordance with these standards, interpretations, and other guidance and the peer review report is issued on the letterhead of the team captain or review captain’s firm and signed in the name of the team captain or review captain’s firm (not the association).

Peer reviews performed by association-formed review teams are subject to oversight by the board and the administering entities and other bodies agreed upon by the board and the administering entity.

Organizing the System or Engagement Review Team

30-1  Question—Paragraph .30 of the standards states that a System Review team, a review captain on an Engagement Review, and, in unusual circumstances, any additional reviewers on an Engagement Review ordinarily should be approved by the administering entity prior to the planning and commencement of the review. How is this accomplished?

Interpretation—The firm and the reviewer should submit scheduling information as required by the administering entity, and the System Review team, a review captain on an Engagement Review, and, in unusual circumstances, any additional reviewers on an Engagement Review should be approved by the administering entity prior to the commencement of the review. The administering entity will consider various factors, including the industries of the engagements of the firm, its size, whether or not the review is administered by the National PRC, and other factors in relation to the knowledge and experience of the members of the review team to determine if the team has the appropriate qualifications and capability to perform the review.

Qualifying for Service as a Peer Reviewer

31b-1  Question—Paragraphs .31(b) and (c) of the standards state that an individual serving as a peer reviewer should be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program and the firm (or all firms if associated with more than one firm) that the member is associated with should have received a report with a peer review rating of pass (previously referred to as an unmodified report) for its most recent System Review or Engagement Review that was accepted timely, ordinarily within the last 3 years and 6 months. Does this apply to all firms the individual is associated with? Is the individual still qualified to serve as a reviewer if the individual starts, or becomes associated with, a newly formed firm (or a firm that has not had a peer review)?

Interpretation—If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received a report with a peer review rating of pass (previously referred to as an unmodified report) for its most recent System Review or Engagement Review that was accepted timely, ordinarily within the last three years and six months.

An individual who was previously a System Review team captain, a reviewer in a System Review or a review captain in an Engagement Review that starts or becomes associated with a newly formed firm (or a firm that has not had a peer review) may continue to serve in such capacity during a transition period. The transition period begins with the earlier of the dates of disassociation from the previous firm or when the individual starts or becomes associated with a new firm. The transition period ends with the earlier of 18 months from the beginning date or the peer review due date of the new firm. In no circumstances will the transition period exceed 18 months. The previous firm should have received a report with a peer review rating of pass (previously referred to as an unmodified report) on its most recently accepted peer review, and the individual should meet all of the other qualifications for service as a team captain or reviewer in a System Review or review captain in an Engagement Review. An individual who was previously a team captain or reviewer in a System Review qualified to perform peer reviews administered by the National PRC or CPCAF PRP that starts or becomes associated with a
newly formed firm (or a firm that has not had a peer review), or a firm enrolled in the program that has undergone a peer review administered by another administering entity, may serve as a team captain or a reviewer on a review administered by the National PRC under the same conditions and requirements mentioned previously.

31b-2  Question—What if the individual was a sole practitioner that has given up his or her own accounting and auditing practice, but is now serving in the capacity of an external quality control or concurring reviewer for other enrolled firms?

Interpretation—If the individual was a sole practitioner that has given up his or her own accounting and auditing practice, but is now serving in the capacity of an external quality control or concurring reviewer for other enrolled firms, he or she would meet many of the minimum requirements in paragraph .31b of the standards, except for being a professional employee of the firm the work is being performed for, and therefore he or she would not meet the qualification requirements to serve in the capacity of a peer reviewer.

31b-3  Question—If the individual is associated with a firm who received a report with a peer review rating of pass with scope limitation on its most recent System Review or Engagement Review, does this meet the qualification requirements to be a peer reviewer?

Interpretation—There are three different grades which can be considered “passing”: pass, pass with scope limitation, and pass with deficiencies. Only the first two (pass and pass with scope limitation) are acceptable grades in order to qualify as a peer reviewer.

Scope limitations under the previous standards were included only in modified or adverse reports. If the individual is associated with a firm who received a report which was modified for a scope limitation or adverse for a scope limitation on its most recent System Review or Engagement Review, this does not meet the qualification requirements to be a peer reviewer.

31b-4  Question—What further qualifications are necessary to perform a peer review of a firm whose review is required to be administered by the National PRC?

Interpretation—In order to be qualified to perform a peer review of a firm required to be administered by the National PRC, ordinarily a peer reviewer must currently be with a firm whose most recent review was administered by the National PRC or the CPCAF PRP. This is not a requirement for a peer reviewer on a review of a firm that elects (but is not required) to have their peer review administered by the National PRC.

31d-1  Question—Paragraph .31(d) of the standards states that an individual serving as a peer reviewer should 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 experience in and knowledge about current rules and regulations appropriate to the level of service applicable to the industries of the engagements the individual will be reviewing. How may such knowledge be obtained, and is there a minimum amount of CPE required to be a peer reviewer?

Interpretation—Such knowledge may be obtained from on-the-job training, training courses, or a combination of both.

If the administering entity determines that the peer reviewer does not have such experience, the peer reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The administering entity has the authority to decide whether a reviewer or review team’s experience is sufficient and whether they have the capability to perform a particular review whether related to high-risk engagements or other factors.

The fundamental purpose of CPE is to maintain or increase, or both, professional competence. AICPA members are required to participate in 120 hours of CPE every 3 years. In order to maintain current knowledge of accounting, auditing, and quality control standards, peer reviewers should obtain at least 40 percent of the AICPA required CPE in subjects relating to accounting, auditing, and quality control. Peer reviewers should obtain at least 8 hours in any 1 year and 48 hours every 3 years. The terms accounting, auditing, and quality control should be interpreted as CPE that would maintain current knowledge of accounting, auditing, and quality control standards for engagements that fall within the scope of peer review as described in paragraphs .06–.07 of the standards.
Peer reviewers have the responsibility of documenting their compliance with the CPE requirement. They should maintain detailed records of CPE completed in the event they are requested to verify their compliance. The reporting period will be the same as that maintained for the AICPA.

**31f-1 Question**—Paragraph .31(f) of the standards states that an individual serving as a peer reviewer on a System or Engagement Review should have provided the administering entity with information that accurately reflects the qualifications of the reviewer, including recent industry experience, and is updated timely. How is this accomplished?

**Interpretation**—Ordinarily, an individual serving as a reviewer on a System or Engagement Review should have completed a peer reviewer resume in accordance with guidance issued by the board that is updated timely and accurately reflects the qualifications of the reviewer, including recent industry experience. This may also be accomplished by providing similar information to those performing an on-site oversight under the direction of a National PRC panel.

**32-1 Question**—Paragraph 32 of the standards states that a 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. What do those responsibilities include?

**Interpretation**—Team members should be brought on to a team when the team captain, or the review captain in limited circumstances, does not possess the adequate qualifications necessary in order to perform the review of engagements within certain industries or type of engagement in the reviewed firm’s practice. In addition, there may be reasons, for instance depending on the size of the firm and its practice, that team members may be brought onto a team to assist the team captain in performing the review in an efficient and effective manner. Whether the team member is brought onto the team to cover certain industries or types of engagement, or just to assist the team captain in performing the review, it is still the responsibility of the team captain or review captain to ensure the team member selected has the appropriate qualifications and to supervise and review the work of the team member. The team captain or review captain is essentially relying on the work of the team member and accepting it as his/her own. The team captain or review captain should ensure that all of the workpapers (engagement questionnaires, MFCs, etc) completed by the team member are reviewed by the team captain or another appropriately qualified team member, and follow up with the reviewed firm or team member as necessary. By signing off on the Team Captain Checklist or Review Captain Checklist, the team captain or review captain is approving the team member’s workpapers and accepting responsibility for the work of the team member.

Team members may review their engagements prior to the team captain or review captain beginning their field work. Reviews of engagements that are performed by team members at locations other than the reviewed firm’s office are acceptable, but the quality of work must be at the same level as it would be had the review been performed at the reviewed firm’s office. In these situations, a review is considered to have commenced when the team member begins the review of engagements (if this is prior to the team captain or review captain beginning their fieldwork). All engagement checklists, MFC and FFC forms should be signed off by the team member prior to the exit conference. The team captain or review captain should consider if the team member should participate in the exit conference.

**33-1 Question**—Paragraph .33 of the standards states that a team captain in a System Review or a review captain in an Engagement Review should “have completed peer review training that meets the requirements established by the board.” Interpretation No. 132-1 states that each report acceptance body member should be trained in the standards, interpretations, and guidance of the program by completing a course that meets the team captain training requirements established by the board within 3 years prior to serving on the committee or during the first year of service on the committee. Interpretation No. 132-1 also states that a technical reviewer charged with the responsibility for performing technical reviews should meet the requirements of the team captain or review captain training requirements established by the board. What specific type of course or courses, if any, should be completed?

**Interpretation**—To initially qualify as a team captain on a System Review, an individual should complete the AICPA two-day introductory reviewer training course, “How to Conduct a Review Under the AICPA Practice-Monitoring Program.”
To qualify initially as a review captain in an Engagement Review, an individual should have completed the first day of the AICPA two-day introductory training course. The first day of the two-day course does not, however, fulfill the initial or CPE requirements for service as a System Review team captain.

In order to maintain the qualifications of a team captain or review captain, individuals should participate in 8 hours of CPE in peer review training within 3 years prior to the commencement of a review. The team captain or review captain should complete a combination of the following courses that combined total the 8 hour requirement: the AICPA 2-day introductory training course (for review captains, only the first day needs to be attended); the AICPA 1-day advanced reviewer training course, “Advanced Training Course for Reviewers: Current Issues in Practice Monitoring;” the annual AICPA Peer Review Conference; or other courses approved by the AICPA Peer Review Board. If a reviewer’s course selection includes 1 or more 4-hour courses, the course hours must be combined and the timing of taking the courses coordinated so that the minimum requirement of 8 hours within 3 years prior to commencement of a review is met.

33-2 Question—Paragraph .33 of the standards discusses the qualifications necessary to serve as a team captain in a System Review. Are there any other qualifications to be met to serve as a team captain?

Interpretation—For firms with greater than 400 professionals, with a professional defined as an individual who spends more than 25 percent of his or her time on accounting and auditing work that meets the criteria for a peer review, an individual who serves as the reviewed firm’s team captain or review captain for 2 successive peer reviews may not serve in that capacity for the reviewed firm’s next peer review.

34-1 Question—Paragraph .34 of the standards discusses that a peer reviewer or reviewing firm may have received communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of the peer reviewer or reviewing firm’s accounting and auditing practice, or notifications of limitations or restrictions on the peer reviewer or reviewing firm’s ability to practice. How do these communications or notifications affect the reviewer or reviewing firm’s ability and qualifications to perform the peer review?

Interpretation—An individual may not serve as a peer reviewer if his or her ability to practice public accounting has been limited or restricted in any way by a regulatory, monitoring, or enforcement body until the limitation or restriction has been removed. If the limitation or restriction has been placed on the reviewer’s firm, or one or more of its offices, then the administering entity must carefully consider the specific circumstances concerning whether any of the individuals associated with the firm, or the portion thereof, may serve as reviewers. Reviewers should immediately notify the administering entity of any such limitations or restrictions. In addition, reviewers should immediately notify the administering entity of communications relating to allegations or investigations from regulatory, monitoring, or enforcement bodies in the conduct of accounting, audit, or attestation engagements performed by the reviewer. The fact that a reviewer has received such communication(s) does not automatically mean that he or she is ineligible to perform peer reviews. The administering entity will consider the matter, including whether any action, including performing oversight on the reviewer, is appropriate. This decision can only initially be appealed to the administering entity’s peer review committee. For actions previously appealed to the committee, if the individual or reviewed firm disagrees with the action(s), he or she may appeal the decision by writing the board, explaining why he or she believes that the action(s) are unwarranted. The board will review and consider the request and respond to it as necessary and appropriate.

The objective of the reviewer informing such communications to the administering entity is to enhance the program’s oversight process, which includes ensuring that peer reviewers are appropriately qualified to perform reviews.

34-2 Question—What if a reviewer fails to immediately notify the administering entity of any such communications relating to the conduct of his or her performance of accounting, audit, or attestation engagements?

Interpretation—If a reviewer fails to immediately notify the administering entity of such communications, the administering entity’s peer review committee or the board, or both, will consider what actions should be taken in the specific circumstances. These actions may include, but are not
limited to, on-site oversight at the reviewer’s expense or removal from the list of qualified peer reviewers. The administering entity is under no obligation to accept a peer review report performed by a reviewer or reviewing firm that has been limited or restricted from practice.

34-3  

**Question**—What are some types of communications that are appropriately related to meeting the objectives described in this interpretation?

**Interpretation**—There are many types of communications that are appropriately related to meeting the objectives described in this interpretation. See Interpretation No. 181-1b-1 for a list, which is not intended to be all-inclusive, that represents examples of the types of organizations where communications would be relevant to meeting the objectives of the requirement.

### Other Planning Considerations and Reporting of PCAOB Inspection Results

**40-1**  

**Question**—Paragraph .40 of the standards notes that the peer reviewer should inquire of the firm regarding the areas to be addressed in the written representation. What should be discussed with the firm regarding the PCAOB’s report as referred to in paragraph .181 of the standards (paragraph 1(e) of appendix B, “Considerations and Illustrations of Firm Representations”)?

**Interpretation**—If the firm has undergone a PCAOB inspection or inspections, the team captain should discuss with appropriate firm personnel the reports submitted by the PCAOB or in the absence of such reports, any findings that may have been communicated orally. The discussion should cover the reports or findings from the PCAOB’s most recent inspections, both immediately prior to or during the peer review year and subsequent to the peer review year covered, if applicable. The team captain should inquire about any open PCAOB inspections, the status of those inspections, and the firm’s corrective action plans. These discussions should focus on the results of the PCAOB’s inspection related to the firm’s system of quality control. The review team should consider what effects, if any, the matters contained in the reports could have on the planning or other procedures to be performed on the peer review. Although the PCAOB’s inspection only covers the firm’s SEC issuer practice, the PCAOB’s inspection reports may contain information related to offices, partners, or other matters that could assist the reviewer in assessing risk and planning peer review procedures. Discussion of these findings should not be interpreted to permit the peer reviewer to request the confidential portions of the PCAOB’s reports. Rather, relevant matters in the PCAOB’s reports are required to be discussed with the peer reviewer.

### Understanding the Firm’s System of Quality Control

**42-1**  

**Question**—Paragraph .42 of the standards requires the review team to obtain a sufficient understanding of the reviewed firm’s system of quality control. How should the review team address elements of the system that reside outside of the firm?

**Interpretation**—The review team should inquire of the firm regarding elements of the system of quality control residing outside of the firm, for instance, membership in associations, joint ventures, non-CPA owned entities, alternative practice structures, arrangements with outside consultants, third party quality control materials (QCM), or CPE (including whether they are peer reviewed) and other. The inquiries should include how they influence the firm’s system of quality control, for instance by providing consultation opportunities, CPE, and monitoring services. These elements should be considered and documented within the risk assessment.

### Considering the Firm’s Monitoring Procedures

**45-1**  

**Question**—Paragraph .45 of the standards notes that the review team should obtain a sufficient understanding of the reviewed firm’s monitoring policies and procedures since its last peer review, and their potential effectiveness, to plan the current peer review. In doing so, the review team may determine that the current year’s internal monitoring procedures could enable the review team to reduce,
in a cost-beneficial manner, the number of offices and engagements selected for review or the extent of
the functional area review. What are some factors to consider in obtaining an understanding of the
firm’s monitoring procedures? If the review team plans to consider the current year’s internal inspection
procedures to reduce the scope of the peer review, what procedures are necessary?

Interpretation—Factors to consider in obtaining the understanding of the firm’s monitoring procedures include

a. the qualifications of personnel performing the monitoring procedures.

b. the scope of the monitoring procedures (coverage of functional areas and engagements and the
criteria for selecting offices and engagements for review).

c. the appropriateness of the materials used for monitoring procedures (for example, questionnaires
or checklists and instructions).

d. the depth of the review of individual engagements, particularly with respect to the review of
working papers and coverage of significant areas.

e. the findings of the monitoring procedures, including internal inspections.

f. the nature and extent of reporting and communicating the results of the monitoring procedures.

g. the follow-up of findings resulting from the monitoring procedures.

In making a judgment about the effects that the firm’s current year’s internal inspection procedures will
have on the selection of offices and engagements to be reviewed, the review team should consider the
size of the firm and the potential effectiveness of the internal inspection procedures.

If internal inspection procedures were not, or will not be, performed to cover the review year, the
review team may not consider the prior year’s internal inspection procedures to reduce the scope of the
peer review.

If the review team does not plan to consider the reviewed firm’s current year’s internal inspection
procedures to reduce the scope of the peer review, the review team need not necessarily perform the
review of any of the engagements on which internal inspection procedures were performed by the
reviewed firm. However, the review team may still wish to reperform the review of a few such
engagements to assist the review team in obtaining a better understanding of the effectiveness of the
internal inspection procedures performed by the reviewed firm.

If the review team plans to consider the current year’s internal inspection procedures to reduce the
scope of the peer review, the review team should test the firm’s internal inspection procedures at
selected offices and on selected engagements. These tests should be sufficient to provide the review
team with a basis for determining whether (a) the reviewed firm’s internal inspection procedures were
applied properly in the reviews of individual practice offices and engagements, (b) the practice office
and Engagement Reviews were carried out conscientiously by competent persons with appropriate
expertise and objectivity, and (c) the findings from the reviewed firm’s internal inspection procedures
are indicative of the work performed in the particular office and therefore can be considered by the
review team to reach an overall conclusion regarding the reviewed firm’s compliance with its quality
control policies and procedures. The testing of internal inspection procedures can be performed (a)
contemporaneously with the reviewed firm’s internal inspection procedures (commonly called
piggyback reviews) or (b) after the internal inspection procedures are completed. Because of the insight
gained from observing the performance of internal inspection procedures, a review team testing the
effectiveness of internal inspection procedures contemporaneously is generally in a better position to
assess the effectiveness of the procedures.

When the review team tests the effectiveness of the internal inspection procedures contemporaneously
with the performance by the internal inspection team performing the procedures, the review team
should visit selected practice offices during the performance of the internal inspection procedures to
(a) reperform the review of a sample of engagements subjected to internal inspection procedures and
(b) reperform the review of a sample of the quality control policies and procedures (functional elements)
subjected to internal inspection procedures in the office. During the visits, the review team should
compare its findings to the internal inspection team’s findings and resolve any differences. In addition,
if applicable, the review team should attend discussions of engagement findings and the overall office findings.

When the review team tests the effectiveness of the internal inspection procedures after the procedures have been completed, the review team should reperform the review of a sample of engagements and the quality control policies and procedures (functional elements) subjected to internal inspection procedures in the office(s). The review team should compare its findings to the internal inspection team’s findings and resolve any differences.

**Question**—Is there more guidance regarding the extent that scope may be reduced, and what factors must be considered and steps performed in order to conclude on the effectiveness? In addition, may a review team apply this same guidance to the involvement of and results from regulatory oversight?

**Interpretation**—Peer reviewers should refer to guidance on reducing scope included in section 3100 Supplemental Guidance. If, after considering that guidance, the peer reviewer plans on significantly reducing the scope of the procedures he or she will be performing, he or she is required to inform AICPA technical staff during peer review planning.

### Understanding, Assessing, and Documenting Peer Review Risk Factors and Risk Assessment

**Question**—Paragraphs .46–.52 discuss peer review risk factors and risk assessment. What other guidance should be considered?

**Interpretation**—Reviewers must assess peer review risk and use a risk-based approach in the selection of engagements and offices for review. Reviewers should formalize the risk assessment before arriving on-site in the reviewed firm’s office and before selecting one or more engagements for review, otherwise they should expect ineffectiveness and, at the very least, inefficiency.

**Inherent Risk Factors**

In assessing inherent risk factors, the reviewer should consider

- circumstances arising within the firm (for example, the firm or individual partners have engagements in several specialized industries);
- circumstances outside the firm that impact the firm’s clients (for example, new professional standards or those being applied initially for one or more clients, changes in regulatory requirements, adverse economic developments in an industry in which one or more of the firm’s clients operate, or significant developments in the client’s organization); and
- variances that may occur from year to year, engagement to engagement or, perhaps, from partner to partner, within the firm (for example, inherent risk will always be higher for an audit of a company or organization operating in a high-risk industry than for a compilation of financial statements without disclosure for a company operating in a noncomplex industry; and there are many situations between these two extremes).

**Control Risk Factors**

Assessing control risk requires reviewers to evaluate the effectiveness of the reviewed firm’s quality control policies and procedures in preventing the performance of engagements that do not comply with professional standards. When assessing control risk, the review team should evaluate the reviewed firm’s quality control policies and procedures and discuss with the firm if it considered the guidance in AICPA Accounting and Auditing Practice Aid Establishing and Maintaining A System of Quality Control for a CPA Firm’s Accounting and Auditing Practice. The reviewer should evaluate whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures for each of the elements of quality control in the context of the firm’s overall control environment and the inherent risk embodied in its accounting and auditing practice.

The assessed levels of risk are the key considerations in deciding the number and types of engagements to review and, where necessary, offices to visit. Through the assessment of risk, the reviewer determines
the coverage of the firm’s accounting and auditing practice that will result in an acceptably low peer review risk. Engagements selected should provide a reasonable cross-section of the firm’s accounting and auditing practice, with a greater emphasis on those engagements in the practice with higher assessed levels of peer review risk.

Reviewers must document, as part of the Summary Review Memorandum (SRM), the risk assessment of the firm’s accounting and auditing practice and its system of quality control, the number of offices and engagements selected for review, and the basis for that selection in relation to the risk assessment. To effectively assess risk of the firm’s accounting and auditing practice and its quality control policies, risk assessment documentation should not only address the engagements selected and the reasoning behind that selection, but also the environment of the firm and its system of quality controls. Some factors that should be considered in assessing risk include the following:

- The relationship of the firm’s audit hours to total accounting and auditing hours
- Size of the firm’s major engagement(s), relative to the firm’s practice as a whole
- Initial engagements and their impact on the firm’s practice
- The industries in which the firm’s clients operate, especially the firm’s industry concentrations
- The results of the prior peer review
- Owners’ CPE policies and the firm’s philosophy toward continuing education (Accumulate the necessary hours or maintain the needed skills and improve delivery of professional services.)
- The firm’s monitoring policies
- Adequacy of the firm’s professional library
- Risk level of the engagements performed (For example, does the firm perform audits of employee benefit plans, entities subject to Circular A-133, and others under Government Auditing Standards, HUD-regulated entities, and others with high-risk features or complex accounting or auditing applications?)
- Have there been any major changes in the firm’s structure or personnel since the prior peer review?

Detection Risk
Inherent risk and control risk directly relate to the firm’s accounting and auditing practice and its system of quality control, respectively, and should be assessed in planning the review. Based on the combined assessment, the reviewer selects engagements for review and determines the scope of other procedures to reduce the peer review risk to an acceptable level. The lower the combined inherent and control risk, the higher the detection risk that can be tolerated. Conversely, a high combined inherent and control risk assessment results in a low detection risk and the resulting increase in the scope of review procedures.

See section 3100 Supplemental Guidance for an example of an appropriately documented risk assessment in the SRM.

Planning and Performing Compliance Tests of Requirements of Voluntary Membership Organizations

54d-1 Question—Paragraph .54(d) discusses the peer reviewer’s requirement in a System Review to review other evidential material as appropriate, including selected administrative or personnel files. Should the reviewer test the firm’s compliance with requirements of voluntary membership organizations?

Interpretation—Voluntary membership requirements that are not directly imbedded into the firm’s written system of quality control for its accounting and auditing practice are not tested as a part of the peer review. In addition, voluntary membership requirements, even those included in the firm’s written system of quality control, that do not directly contribute to the firm’s compliance with the requirements
Inclusion of Engagements and Aspects of Functional Areas in the Scope of the Peer Review

55-1  **Question**—Paragraph .55 of the standards notes that there is a presumption that all engagements and all aspects of functional areas otherwise subject to the peer review will be included in the scope of the review. Could a firm have a legitimate reason for an exclusion and what is the effect on the performance of the review?

**Interpretation**—In rare situations a reviewed firm may have legitimate reasons for excluding certain engagements or certain aspects of functional areas, for example when an Engagement or an employee’s personnel records are subject to pending litigation. In those instances a reviewer should carefully consider the implication of such exclusions. Those considerations should include assessing the reasonableness of the reasons for the exclusions and assessing the affect on peer review risk assessments and scope, including whether alternate procedures can be performed. To reduce the potential for disagreement about such matters among the reviewed firm, the reviewer, and the administering entity, ordinarily, when the reviewed firm contemplates excluding engagement(s) or aspect(s) of functional area(s), it should notify the team captain in a timely manner and submit a written statement to the administering entity, ordinarily prior to the commencement of the review, indicating (a) it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process, (b) the reasons for the exclusion, and (c) it is requesting a waiver for the exclusion. The administering entity should satisfy itself concerning the reasonableness of the explanation before agreeing to the exclusion.

For peer reviews overseen by a panel preassigned by the administering entity for on-site oversight purposes, the reviewed firm should notify the team captain in advance that it is probable that engagement(s) or aspect(s) of functional area(s) will be excluded from the review, the general reasons for such exclusion, and a detailed description of the procedures used to identify and assess those situations. The panel as previously described should determine that those procedures are appropriate in light of the circumstances. They should consider the level of oversight to which the review may be subject and the level of involvement that members of the board have in that oversight. In addition, they should consider the practicality of selecting a replacement and the availability of other engagement(s) or aspect(s) of functional area(s) as appropriate replacements. Ordinarily, the greater the population to select from, the more there is an opportunity to find an appropriate replacement, and the less there is a risk that there is a scope limitation.

The administering entity (or panel as previously described) should approve the request to exclude engagement(s) or aspect(s) of functional area(s) as the situation arises only when it is satisfied that, based on the reasonableness of the procedures used to identify and assess the situations and the other factors described in the preceding, there will be no limitations on the scope of the review.

Regardless of the approach used to notify the administering entity of exclusions, the reasons for the exclusions and the risk assessment implications should be fully documented in the peer review working papers, and the peer review committee should consider those factors as part of its evaluation and acceptance process.

An administering entity may conclude that scope has been limited due to circumstances beyond the firm’s control and the review team cannot accomplish the objectives of those procedures through alternate procedures, thus precluding the application of one or more peer review procedure(s) considered necessary in the circumstances. For example, ordinarily, the team would be unable to apply alternate procedures if the firm’s only engagement in an industry that must be selected is unavailable for
review and there isn’t an earlier issued engagement that may be able to replace it, or when a significant portion of the firm’s accounting and auditing practice during the year reviewed had been divested before the review began. In these circumstances, the team captain or review captain should consider issuing a report with a peer review rating of pass (with a scope limitation), pass with deficiency (with a scope limitation), or fail (with a scope limitation), as applicable. The existence of a scope limitation in and of itself does not result in a report with a peer review rating of pass with deficiencies or fail; it is in addition to the grade that was determined to be issued (which is why it is possible to have a report with a grade of pass (with a scope limitation) to which there would be no letter of response).³

If the administering entity (or panel as previously described) concludes that there is not a legitimate reason for the requested exclusion and the firm continues to insist on the exclusion, it should be evaluated whether this is a matter of noncooperation (see Interpretation No. 5h-1).

**Office and Engagement Selection in System Reviews**

**56-1 Question**—Paragraph .56 of the standards provides factors to consider when assessing peer review risk at the office level. What are some other examples of factors to consider?

**Interpretation**—Other examples of factors to consider when assessing peer review risk at the office level follow. This list is for illustrative purposes only, and does not include all possible inherent and control risk factors, nor is the peer reviewer required to consider every item on the list when assessing inherent and control risk:

- Offices with one or a few engagements comprising a significant portion of the office’s accounting and auditing practice
- Offices with concentrations of high risk engagement
- Offices with a pattern of litigation or regulatory actions
- Offices identified in the preceding peer review or through monitoring procedures as operating at a level significantly below the firm’s quality standards
- Offices with an unreasonably large number of accounting and auditing hours per engagement partner
- Offices with only one or a few engagements in a specialized industry
- Offices not subjected to monitoring procedures or not scheduled to be subject to monitoring procedures since the last peer review
- Offices where individual partners practice in many industries
- Offices in geographic areas that are experiencing economic hardships
- Offices with numerous clients in industries experiencing economic hardships

**58-1 Question**—Paragraph .58 of the standards provides guidance on steps to follow if a current year’s engagement has not been completed and issued. What is the impact, if any, for audit engagements subject to professional standards, statutes, regulations, or the firm’s quality control policies, which may allow a specified time for an assembly process after issuance?

**Interpretation**—Professional guidance indicates that auditors should not date the audit report until they have obtained sufficient appropriate audit evidence to support the opinion. At that point audit documentation should have been reviewed, financial statements should have been prepared, and management should have asserted its responsibility for them. Document completion dates specify a date certain by which assembly of the audit file must be completed. During the period leading up to that date, changes can be made to the audit documentation to complete the documentation and assembly of audit evidence, perform routine file-assembling procedures, sign off on file completion checklists and add information received after the date of the auditor’s report; for example, an original confirmation

³ This is different than the current standards whereby a scope limitation is treated as a modified peer review report.
that was previously faxed. However, the sufficient appropriate audit evidence would have already been required to be in place when the report was dated and thus would be in place when it was issued. Thus, there is no impact on the process of selecting engagements for review.

58-2 Question—What if the incomplete engagement is an initial engagement and there is no comparable engagement?

Interpretation—If there is an incomplete engagement (which is an initial engagement) and there is no comparable engagement, the firm should request an extension from the administering entity. The administering entity will consider the circumstances and evaluate whether there is actually a matter of noncooperation (see Interpretation No. 5h-1). Although the administering entity will otherwise likely grant the extension, the firm needs to consider if it will be meeting the requirements of its state board of accountancy or other regulatory bodies. If an extension is not possible, the peer review should be performed and the report should include a scope limitation.

If the situation arose due to a permanent change in the nature of the firm’s business, the firm should consider requesting a change in its peer review year-end date. If there is any uncertainty concerning how the situation should be handled, the administering entity should be contacted. See section 3100 Supplemental Guidance for an example when there is an initial engagement performed under Government Auditing Standards (GAS, also known as the Yellow Book) meeting the preceding criteria.

58-3 Question—Paragraph .58 of the standards indicates that if the subsequent year’s engagement has been completed and issued, the review team should consider, based on its assessment of peer review risk, whether the more recently completed and issued engagement should be reviewed instead. What are some factors to be considered and implications on the peer review?

Interpretation—Other than consideration of the firm’s risk assessment and the factors that contributed to it, the reviewer may consider if the subsequent engagement was performed during or after the peer review year. In addition, the reviewer should consider the number of subsequent engagements available and selected for review, as well as the differences in issues encountered in the engagements whether the year-end was within the peer review year or subsequent to it. The greater the number of subsequent year engagements selected, the greater the risk that the results of the review are not appropriate or matched in relation to the peer review year covered by the report and the related peer review results. In some situations, the team captain should consider whether it is more appropriate to issue the peer review report on the subsequent year. However, this should be a rare situation, would require advance approval from the administering entity, and that entity may request that the next review be accelerated to put the firm back on cycle. If many of the subsequent engagements have been issued, the reviewer should discuss the timing of the peer review with the firm so that future reviews may benefit from the results of the peer review before the subsequent engagements are issued.

59-1 Question—Paragraph .59 of the standards requires that engagements selected for review should provide a reasonable cross section of the reviewed firm’s accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk, and the guidance provides examples of factors to consider when assessing peer review risk at the engagement level. What are some other considerations?

Interpretation—A reasonable cross section of a firm’s accounting and auditing practice, not only includes consideration of the specific industries that are required to be selected, but other industries that have a significant public interest. The reviewer also needs to carefully consider the industries that the firm has identified in the category of “other audits” when determining whether to select such an engagement(s). In addition, a reasonable cross-section takes into account the number of partners, the number of practice offices, and materiality thresholds of accounting and auditing hours.

A reasonable cross section does not always require that at least one engagement from every level of service provided by the firm be selected for review; however, it often may be appropriate in the circumstances. Therefore, there is a relationship between a risk-based approach and a reasonable cross section when selecting engagements, and in that regard each peer review needs to be considered on a case-by-case basis.

The reviewer should explain and document in the Summary Review Memorandum key decisions that he or she made when they chose not to select any one or more of the following: a level of service, an
engagement where there is a significant public interest, industries where the firm performs a significant number of engagements, and so on. This does not give authority to the reviewer to avoid selecting an engagement(s) by simply documenting the reason(s) why he or she did not select certain engagement(s). Decisions for not selecting certain engagements must make sense, and must not conflict with the standards. The reviewer should anticipate questions regarding engagement selection from the administering entity.

59-2  

**Question**—Paragraph .59 of the standards provides factors to consider when assessing peer review risk at the engagement level. What are some other examples of factors to consider?

**Interpretation**—Other examples of factors to consider when assessing peer review risk at the engagement level follow. This list is for illustrative purposes only, and does not include all possible inherent and control risk factors, nor is the peer reviewer required to consider every item on the list when assessing inherent and control risk:

- Engagement size, in terms of the hours required to plan and perform it
- Engagements involving experienced personnel hired from other firms, and partners who also have office, regional or firm-wide management, administrative, or functional responsibilities
- Engagements where work on segments has been referred to other firms, foreign offices, domestic or foreign affiliates, or correspondents
- Engagements where one or more affiliated entities (for example, parent companies and subsidiaries or brother and sister companies) constitute a large portion of the firm’s overall clientele
- Engagements identified in the firm’s quality control System or guidance material as having a high degree of risk
- Engagements where departures from professional standards and failure to comply with the firm’s quality control policies and procedures were noted in the preceding year’s monitoring procedures
- Engagements in industries where the firm has experienced high instances of litigation, proceedings, or investigations
- Engagements affected by recently implemented revisions of the firm’s quality control policies and procedures
- Engagements affected by newly effective professional standards
- Clients in industries in poor financial condition
- Clients in industries with complex or sophisticated transactions
- Engagements from merged-in practices
- Engagements subject to Government Auditing Standards
- Engagements subject to the Employee Retirement Income Security Act of 1974 (ERISA)
- Engagements subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA)

61-1  

**Question**—Paragraph .61 of the standards requires that at least one engagement from the initial selection to be reviewed should be provided to the firm once the review commences and not provided to the firm in advance (the surprise engagement). What steps should be followed when making the selection of the surprise engagement?

**Interpretation**—The following steps should be followed:

1. Complete the risk assessment as described in paragraphs .46–.52 of the standards.
2. Plan the compliance tests as described in paragraphs .53–.63 of the standards and determine which engagements should be selected for the review, independent of any surprise selections.
3. Based on those engagements selected for review, determine which engagement should be the surprise engagement. If the risk assessment warrants, more than one surprise engagement may be selected.

Although the standards indicate that the engagement should be the firm’s highest level of service (which ordinarily means an audit), in situations where the audit cannot be the surprise selection (for instance, if there is only one audit required to be selected or the only audit is a must select engagement), an engagement from the next highest level of service should be selected. It is not always possible for the reviewer to know whether a reviewed firm expects a certain engagement to be selected. Reviewers are asked to use their professional judgment in these situations. The selection should be based on the risk assessment performed in step 1 and the engagement should be from the list of engagements determined in step 2. The team captain should not increase the original scope of the selection whether another audit or another level of service is selected as the surprise engagement.

See section 3100 *Supplemental Guidance* for several examples for selecting surprise engagements.

61-2 **Question**—How does the requirement to select a surprise engagement apply for a System Review performed at a location other than the reviewed firm’s offices (Interpretation No. 8-1)?

**Interpretation**—For System Reviews approved by the administering entity to be performed at a location other than a reviewed firm’s offices, engagements selected to be reviewed are submitted to the reviewer by the firm. As a result, the requirement to select a surprise engagement on a System Review performed at a location other than the reviewed firm’s offices is not applicable.

62-1 **Question**—Paragraph .62 of the standards requires that the team captain consult with the administering entity about the selection of engagements for review if the team captain finds that meeting all of the criteria in the related guidance results in the selection of an inappropriate scope of the firm’s accounting and auditing practice. What items should the team captain consider to determine if the selection is appropriate?

**Interpretation**—The team captain should carefully consider whether

- a. significant risk areas have appropriate coverage (see paragraph .65 of the standards).
- b. appropriate weight has been given to reviewing work performed by all or most supervisory personnel.
- c. adequate consideration has been given to engagement selection based on peer review risk on a firm-wide basis. For example, if two offices are selected for review and each has a large client in the same specialized industry, peer review risk should be considered in determining whether more than one of these engagements should be selected for review.

If an engagement(s) within the team captain’s selection is not available for review, a comparable engagement within the peer review year-end is also not available, nor is there a prior year’s engagement that may be reviewed; the team captain should consult with the administering entity to determine the effects on the timing or year-end of the peer review, if any, and whether a report with a peer review rating with a scope limitation should be issued.

63-1 **Question**—Paragraph .63 of the standards requires that specific types or number of engagements must be selected in a System Review as well as specific audit areas. In a System Review, what specific types and number of engagements, if any, should be included in the sample of engagements selected for review or assessed at a higher level of peer review risk?

**Interpretation**—At least one of each of the following types of engagements is required to be selected for review in a System Review:

- a. Governmental—*Government Auditing Standards*, issued by the U.S. Government Accountability Office, requires auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards. If a firm performs an engagement of an entity subject to GAS and the peer review is intended to meet the requirements of those standards, at least one engagement conducted pursuant to those standards should be selected for review.
b. **Employee Benefit Plans**—Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to ERISA. Therefore, if a firm performs the audit of one or more entities subject to ERISA, at least one such audit engagement conducted pursuant to ERISA should be selected for review.

c. **Depository Institutions**—The 1993 FDIC guidelines implementing the FDICIA require auditors of federally insured depository institutions having total assets of $500 million or greater at the beginning of its fiscal year to have a peer review that includes the review of at least one audit of an insured depository institution subject to the FDICIA. If a firm performs an audit of a federally insured depository institution subject to the FDICIA and the peer review is intended to meet the requirements of the FDICIA, at least one engagement conducted pursuant to the FDICIA should be selected for review. The review of that engagement should also include a review of the reports on internal control if applicable because those reports are required to be issued under the FDICIA when total assets exceed $1 billion.

In complying with the requirements in the previous list, peer reviewers should also ensure that the engagements selected include a reasonable cross section of the firm’s accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain this risk weighted cross section.

For benefit plans under ERISA, the peer reviewer should also consider whether the engagement selection process has adequately addressed the risks involved in limited versus full scope audits and in different types of benefit plans such as defined benefit, defined contribution, and voluntary health and welfare plans. Similar considerations should be made on GAS and FDICIA engagements.

The team captain’s consideration of this coverage should be discussed in his or her risk assessment documentation. This discussion should include any factors considered when the reviewed firm has a significant number of engagements in one of these high risk areas and it is not otherwise evident why only one engagement from the industry has been included in the scope of the review.

### Concluding on the Review of an Engagement

**66-1 Question**—Paragraphs .66–.67 and .109 of the standards requires the review team to conclude on the review of an engagement by determining whether the engagement was performed or reported on in conformity with applicable professional standards in all material respects. How should this conclusion be made?

**Interpretation**—The review team should use practice aids that document, for each Engagement Reviewed, whether anything came to the review team’s attention that caused it to believe the following, as applicable:

a. The financial statements were not in conformity with GAAP in all material respects or, if applicable, with an other comprehensive basis of accounting and the auditor or accountant’s report was not appropriately modified.

b. The firm did not perform or report on the engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards; for example, *Governmental Auditing Standards*.

c. The firm did not perform or report on the engagement in all material respects in accordance with SSARS.

d. The firm did not perform or report on the engagement in all material respects in accordance with SSAEs or any other applicable standards not encompassed in the preceding.

In Engagement Reviews, these results should be considered by the review captain in determining the type of report to issue.

**67-1 Question**—Paragraphs .67 and .109 of the standards notes that the team captain or review captain should promptly inform the firm when an engagement is not performed or reported on in conformity
with applicable professional standards and remind the firm of its obligations under professional standards to take appropriate actions. How is this communication made and what other responsibilities does the team captain or review captain have in regard to the affected engagements?

Interpretation—If the reviewer answers yes with respect to any of the preceding items, the team captain or review captain should promptly inform an appropriate member of the reviewed firm on an MFC form. The team captain or review captain should remind the reviewed firm of its obligations under professional standards to take appropriate actions as addressed in the section of AU section 561, Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report (AICPA, Professional Standards, vol. 1), or SSARS No. 11, Standards for Accounting and Review Services (AICPA, Professional Standards, vol. 2, AR sec. 50), as applicable, or, if the firm’s work does not support the report issued, as addressed in AU section 390, Consideration of Omitted Procedures After the Report Date (AICPA, Professional Standards, vol. 1). 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 then advise the team captain or review captain of the results of its investigation, including parties consulted, and document on the MFC form prepared by the reviewer the actions planned or taken or its reasons for concluding that no action is required.

Reviewers or administering entities should not instruct reviewed firms to recall accounting or auditing reports, to have them reissued, or to revise previously issued financial statements because those are decisions for the firm and its client to make. However, the firm’s actions may affect other corrective actions the administering entity’s peer review committee may impose.

If the firm has taken action, the review team should review documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and consider whether the action is appropriate. If the firm has not taken action, the review team should consider whether the planned actions are appropriate.

Determining the Cause for a Finding in a System Review

83-1 Question—Paragraph .83 of the standards notes that when a review team is faced with an indication that the firm failed to perform or report in conformity with applicable professional standards in all material respects, the review team’s first task in such circumstances is to determine the cause of the failure. 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 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 underlying cause of the engagement deficiency is identified.

Reviewers in a System Review must think of engagement deficiencies as symptoms of weaknesses in the firm’s system of quality control. Reliable methods for identifying the systemic cause of engagement deficiencies are to require complete answers on the MFC forms instead of merely a check mark for the “yes we agree” response, and surveying firm personnel about causes of identified engagement deficiencies. Reviewers should consider that separate engagement deficiencies that are exactly the same may result from completely different quality control weaknesses in the firm.

Furthermore, without understanding the underlying cause, a reviewer cannot make recommendations that are appropriate to reducing the likelihood of the deficiency recurring. Reviewers should avoid assuming that the recommendation of the use of standard forms and checklists will improve a firm’s system of quality control. Although forms and checklists are helpful in many circumstances, their use will not cure all deficiencies. For example, checklists will not help firms that lack overall knowledge of accounting and auditing matters or knowledge in the specific area in which the deficiency arose. Nor will standard checklists help firms in which policies and procedures for the review of engagements are routinely overridden.
Isolated Matters in a System Review

84-1 Question—Paragraph .84 refers to isolated matters in a System Review. What is an isolated matter and what further guidance is there to address isolated matters?

Interpretation—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.

Reviewers should follow the guidance in paragraph .68 “Expansion of Scope” and paragraphs .84–.85 “Determining the Cause for a Finding” of the standards. The reviewer needs to evaluate the pervasiveness of the issue, including expanding scope if necessary. In some instances the team captain should expand scope to other engagements or aspects of functional areas, and determine that such matters did not occur elsewhere, thus evidencing that the noncompliance with the firm’s system of quality control was truly isolated. In these situations, team captains should focus on the underlying cause of the matter when analyzing if it is isolated and may consider a key area approach when expanding scope to other engagements or aspects of functional areas to determine if the matter is isolated. The reviewer’s ability to conclude a matter is isolated may be dependent on his or her ability to expand scope to engagements or aspects of functional areas that are classified by common characteristics such as, but not limited to, the industry, level of service, the practitioners in charge, or engagements that must be selected in a peer review.

The reviewer should consider that a single disclosure matter and a single documentation matter may be isolated when taken individually but they may have resulted from the same underlying systemic cause. They should further consider that an isolated matter may be materially significant in amount or nature or both.

Reviewers should document their consideration of an isolated matter and the conclusions reached in the MFC form. Team captains should document the same in the Summary Review Memorandum. The documentation should include the details of the matter noted, how the reviewer expanded scope, if applicable, and why the reviewer concluded the matter was isolated. The documentation should provide enough information for the administering entity’s peer review committee to determine if the team captain’s conclusion is appropriate.

Communicating Conclusions at the Exit Conference

91-1 Question—Paragraph .91 of the standards instructs a team captain on communicating conclusions at the exit conference in a System Review. What other guidelines should be followed?

Interpretation—The team captain should consider the need to have the team member(s) participate (in person or via teleconference) in the exit conference or be available for consultation during the exit conference, especially when, in unusual circumstances, the team captain does not have the experience to review the industry of an engagement that was reviewed by the team member. Furthermore, the exit conference is not the appropriate place or time to surprise the firm with the intention of issuing a pass with deficiency or fail Report or to discuss any unresolved accounting and auditing issues. It is expected that the team captain will have an open means of communication with various levels of personnel leading up to the exit conference, having at a minimum and as applicable, promptly informed them when an engagement is not performed or reported on in conformity with applicable professional standards, having discussed MFC and FFC forms including the systemic causes and related recommendations for any matters, findings, deficiencies, and significant deficiencies in advance, and having followed up on open questions and issues.

Notification and Submission of Peer Review Documentation to the Administering Entities by the Team Captain or Review Captain

94-1 Question—Paragraphs .94, .120, and .170 of the standards instruct a reviewer to see the interpretations for guidance on notification requirements and submission of peer review documentation to the
administering entity. What materials should be submitted by the team captain or review captain, and when should they be submitted by?

**Interpretation**—The team captain or review captain should notify the administering entity that the review has been performed and should submit to that administering entity within 30 days of the exit conference date in a System Review (or the review captain’s discussions with the reviewed firm regarding the results of the review in an Engagement Review) or by the firm’s peer review due date, whichever date is earlier, a copy of the report, and the following documentation required by the administering entities at a minimum (consider sending by an insured carrier or retaining or sending copies, or both):

For *System and Engagement Reviews*: The firm-wide Summary Review Memorandum (including the Disposition of MFC), Team Captain Checklist or Review Captain Checklist (as applicable), and MFC and FFC forms, as applicable. Note that other working papers on these peer reviews (including the representation letter) are subject to oversight procedures and may be requested at a later date.

For:
- Committee-appointed review team engagement reviews
- All System Reviews, engagement reviews, and quality control materials and continuing professional education program reviews administered by the National PRC

In addition to the preceding, include all other working papers incorporated by reference, as applicable, including engagement checklists; quality control documents and related practice aids; staff interview, focus group, and other interview sessions; planning documents; and any other relevant documents.

**Reporting on System and Engagement Reviews When a Report With a Peer Review Rating of Pass With Deficiency or Fail Is Issued**

96m-1 *Question*—Paragraphs .96(m) and .122(m) of the standards instruct a team captain in a System Review (or review captain on an Engagement Review) to include, for reports with a peer review rating of *pass with deficiency(ies)* or *fail*, descriptions (systemically written, in a System Review) of the deficiencies or significant deficiencies and the reviewing firm’s recommendations. What is the treatment of FFCs, if any, when these reports are issued, and how are deficiencies treated for reports with a peer review rating of *fail*?

**Interpretation**—Any findings that are only raised to the level of an FFC remain in an FFC and are not included in a report with a peer review rating of *pass with deficiency or fail*.

A significant deficiency in a System Review 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*. Therefore, this is a systemic approach to determining whether the deficiencies identified meet this significant deficiency threshold. If they do, then a report with a peer review rating of *fail* is issued and all of the deficiencies are considered significant deficiencies and are identified as such. Such a report would not have a section with “Significant Deficiencies” and another section for “Deficiencies,” as they would all be categorized as Significant Deficiencies.

A significant deficiency on an Engagement Review exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review (with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of *pass with deficiencies*). Such deficiencies are communicated in a report with a peer

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4 Previously, when a determination was made to issue an adverse report, then any matters that ordinarily would have only been included in a letter of comment were placed in the adverse report and no letter of comment was issued.
review rating of fail. Therefore, on an Engagement Review, all of the engagements reviewed are considered concerning whether deficiencies were noted when determining if the significant deficiency threshold is met. If they do, then a report with a peer review rating with fail is issued and all of the deficiencies are considered significant deficiencies and are identified as such. Such a report would not have a section with “Significant Deficiencies” and another section for “Deficiencies,” as they would all be categorized as Significant Deficiencies.

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 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 underlying cause of the deficiency or significant deficiency is different, 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 an 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.”

See section 3100 Supplemental Guidance for an example of identifying repeat 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 an 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.”

On 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.”

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5 Or the letter of comments, or both, if applicable, for reviews commenced prior to January 1, 2009. Although the repeat was not classified as a deficiency or significant deficiency in that review, this is an appropriate approach because the finding was included in the peer review reporting package at that time.

6 Or the letter of comments, or both, if applicable, for reviews commenced prior to January 1, 2009. Although the repeat was not classified as a deficiency or significant deficiency in that review, this is an appropriate approach because the finding was included in the peer review reporting package at that time.
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 underlying causes of deficiencies and significant deficiencies on System Reviews and that reporting on all peer reviews is appropriate.

**Firm Responses in a System or Engagement Review**

**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.

**Submission of FFC Forms to the Administering Entities by the Team Captain or Review Captain**

**99-1**

*Question*—Paragraphs .99 and .125 of the standards instruct a team captain or review captain to review and evaluate the firm’s responses to all findings and recommendations not rising to the level of a deficiency or significant deficiency as reflected on the related FFC forms before they are submitted to the administering entity. When should the FFC forms be submitted to the administering entity and who should submit them?

*Interpretation*—Ordinarily, the FFC forms should be responded to by the reviewed firm during the peer review; for example, during or immediately following the exit conference (in a System Review) or before or immediately following the review captain’s discussions with the reviewed firm regarding the results of the review (in an Engagement Review). This would allow the team captain or review captain to assist the firm in developing its responses and obtaining the necessary signatures on the FFC forms and allow the team captain or review captain to review the responses at that time, all of which will expedite the process. In some cases, the reviewed firm will choose to check the box on the FFC form that it agrees with the finding and will implement the reviewer’s recommendation, and they should provide the date of the action(s) taken or planned to be taken. If the reviewed firm prefers to provide a description of the actions(s) taken or planned to be taken (and timing), the team captain or review captain can provide assistance in ensuring that the responses are appropriate and comprehensive. However, it is also recognized that the reviewed firm may prefer to provide its final responses after it has had the opportunity to discuss them further internally, develop a plan of action, and more formally respond. In either case, the completed FFC forms should be submitted to the team captain or review captain no later than two weeks after the exit conference (in a System Review) or the review captain’s discussions with the reviewed firm regarding the results of the review (in an Engagement Review), or by the peer review’s due date, whichever is earlier. FFC forms are then submitted by the team captain or review captain with the applicable working papers to the administering entity.
Election to Have a System Review

103-1 Question—Paragraph .103 of the standards notes that firms eligible to have an Engagement Review may elect to have a System Review. What modifications are required to the peer review report under these circumstances?

Interpretation—Under these circumstances, any references in the peer review report to “the accounting and auditing practice” should be modified to refer only to “the accounting practice.” In addition, the sentence “Firm XYZ & Co. has represented to us that the firm performed no services under the SASs; Government Auditing Standards; examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs); or audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB)” should be added.

Impact of SQCS No. 7 on Engagement Reviews

109-1 Question—Paragraph .109 of the standards notes that an Engagement Review does not include a review of other documentation prepared on the engagements submitted for review (other than the documentation referred to in paragraphs .107–.108), tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a System Review. Should or may a firm’s written quality control policies and procedures be inquired about, obtained by, or reviewed by the review captain on an Engagement Review? Would a firm’s failure to have its quality control policies and procedures documented result in an individual engagement being deemed not performed or reported on in conformity with applicable professional standards, even if there are no other matters, findings, or deficiencies noted on the engagement?

Interpretation—SQCS No. 7 states that firms should document their quality control policies and procedures and that the size, structure, and nature of the practice of the firm are important considerations in determining the extent of the documentation of established quality control policies and procedures.

However, the objective of an Engagement Review is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and representations and, except for compilation engagements performed under SSARS, the applicable documentation required by professional standards. An Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm’s system of quality control (which is what the documentation requirements are related to).

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

Therefore, if reading the firm’s documented quality control policies and procedures or the inability for the review captain to do so has no impact on whether the actual engagements submitted for review are performed and reported on in conformity with SSARS and the SSAEs in all material respects, reading the documented quality control policies and procedures would only appear to give a review captain the insight concerning the underlying cause concerning why a matter, finding, or deficiency occurred. Although this may be useful information in preparing MFCs or FFCs, the systemic reasons for these items are beyond the scope of an Engagement Review.

Therefore, obtaining or reviewing a firm’s documented quality control policies and procedures would not be applicable to Engagement Reviews.

Although the standards allow for “reading the applicable documentation required by professional standards,” and the SQCSs are a part of professional standards, it might appear that the standards do not prohibit the reviewer from obtaining and reading the firm’s documented quality control policies and procedures (except as specifically discussed in the standards for compilation engagements performed under SSARs); however, it is deemed as beyond the scope of an Engagement Review.
SQCS No. 7 also states that at least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the requirements set forth in Rule 101, Independence, and its related interpretations and rulings of the AICPA Code of Professional Conduct (AICPA, Professional Standards, vol. 2, ET sec. 101) and the rules of state boards of accountancy and applicable regulatory agencies. Written confirmation may be in paper or electronic form. Analogous to the preceding situation, obtaining or reviewing a firm’s written independence confirmations would not be applicable to Engagement Reviews because the requirement is imbedded in the SQCSs and not a procedure required by SSARSs or the SSAEs.

Qualifying for Service as a Peer Review Committee Member, Report Acceptance Body Member, or Technical Reviewer

132-1 Question—Paragraphs .132 and .136 of the standards note that minimum requirements must be met to be a peer review committee member, a report acceptance body member, or a technical reviewer. What are those requirements?

Interpretation—

Peer Review Committee Member
A majority of the peer review committee members and the chairperson charged with the overall responsibility for administering the program at the administering entity should possess the qualifications required of a team captain in a System Review.

Report Acceptance Body Member
Each member of an administering entity’s report acceptance body charged with the responsibility for acceptance of peer reviews should be

a. currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. 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.

b. 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 (previously referred to as an unmodified report) on its most recently accepted System or Engagement Review that was accepted timely, ordinarily within the last 3 years and 6 months7 (see Interpretation No. 31b-1).

c. trained in the standards, interpretations, and guidance of the program by completing a course that meets the team captain training requirements established by the board within 3 years prior to serving on the committee or during the first year of service on the committee (see Interpretation No. 33-1).

A majority of the report acceptance body members and the chairperson charged with the responsibility for acceptance of System Reviews should possess the qualifications required of a System Review team captain.

Technical Reviewers
Each technical reviewer charged with the responsibility for performing technical reviews should

a. be trained in the standards, interpretations, and guidance of the program by completing within the three-year period preceding the commencement of the technical review one or more training courses that are applicable to the type of peer reviews being evaluated and that meet the requirements of the team captain or review captain training requirements established by the board (see Interpretation No. 14).

7 If a committee member firm’s most recent review was a report review, then the member is not eligible to be charged with the responsibility for acceptance of any peer reviews.
b. participate in at least one peer review each year, which may include participation in an on-site oversight of a System Review.

c. have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Technical reviewers are to obtain a minimum amount of CPE to maintain the appropriate level of accounting and auditing knowledge.

If a technical reviewer does not have such knowledge and experience, the technical reviewer may be called upon to justify why he or she should be permitted to perform technical reviews or oversights. The administering entity has the authority to decide whether a technical reviewer’s knowledge and experience is sufficient and whether he or she has the capability to perform a particular technical review or oversight whether there are high-risk engagements involved or other factors.

The fundamental purpose of CPE is to maintain or increase, or both, professional competence. AICPA members are required to participate in 120 hours of CPE every 3 years. In order to maintain current knowledge of accounting, auditing, and quality control standards, technical reviewers should obtain at least 40 percent of the AICPA-required CPE in subjects relating to accounting, auditing, and quality control. Technical reviewers should obtain at least 8 hours in any 1 year and 48 hours every 3 years in subjects relating to accounting, auditing, and quality control. The terms *accounting*, *auditing*, and *quality control* should be interpreted as CPE that would maintain current knowledge of accounting, auditing, and quality control standards for engagements that fall within the scope of peer review as described in paragraphs .06–.07 of the standards.

Technical reviewers have the responsibility of documenting their compliance with the CPE requirement. They should maintain detailed records of CPE completed in the event they are requested to verify their compliance. The reporting period will be the same as that maintained for the AICPA.

Accepting Engagement Reviews by the Technical Reviewer

137-1 *Question*—The standards and interpretations indicate that the technical reviewer should be delegated the authority from the committee to accept Engagement Reviews in certain circumstances. What are those circumstances?

*Interpretation*—The technical reviewer should be delegated the authority from the committee to accept Engagement Reviews on the committee’s behalf when the technical reviewer determines that any MFC forms prepared only relate to compilations under SSARSs, that no MFC forms should have been prepared except as related to compilations under SSARSs, and there are no other issues associated with the peer review warranting committee consideration or action that could potentially affect the results of the peer review.

The technical reviewer may identify reviewer feedback that should be considered and approved by the peer review committee prior to issuance. The technical reviewer should still be delegated the authority from the committee to accept Engagement Reviews on the committee’s behalf when such feedback may be provided to the review captain unless the circumstances leading up to the feedback may have affected the results of the review. Accordingly, if the feedback being provided to the review captain involves issues which could potentially affect the results of the peer review, the technical reviewer should not accept the Engagement Review but present it to the committee for consideration.

Cooperating in a Peer Review—Implementation Plans and Correction Action Plans

143-1 *Question*—Paragraph .143 of the standards notes that an implementation plan in addition to or as an affirmation of those described by the firm in its responses on the FFC form may be requested by the
administering entity’s peer review committee. Can this plan only be requested when a report with a rating of pass has been issued?

*Interpretation*—No, an implementation plan may be requested whether a report with a rating of pass, pass with deficiency, or fail is issued for any findings that were only raised to the level of an FFC and did not get elevated further. Thus, it is possible to have a required corrective action as a condition of acceptance of the peer review stemming from a report with a rating of pass with deficiencies or fail and a required implementation plan as a condition of cooperation (unrelated to the acceptance of the review) for the findings included in the FFCs.

**Publicizing Peer Review Information**

146-1  *Question*—Paragraph .146 of the standards discusses that neither the administering entity nor the AICPA shall make the results of the review available to the public, except as authorized or permitted by the firm under certain circumstances. What are examples of those circumstances?

*Interpretation*—A firm may be a voluntary member of one of the AICPA’s audit quality centers or sections that has a membership requirement such that certain peer review documents be open to public inspection. Other firms may elect not to opt out of the program’s process for voluntary disclosure of peer review results to state boards of accountancy where the firm’s main office is located. Also, firms may voluntarily instruct their administering entity to make the peer review results available to certain other state boards of accountancy. In these cases, the firm permits the AICPA or administering entities to make their peer review results available to the public or to state boards of accountancy, respectively.

**Firm Representations**

181-1-1  *Question*—Paragraph .181(1) (appendix B) of the standards advises that the firm is not prohibited from making additional representations beyond the required representations, in its representation letter to the team captain or review captain. What parameters should be used in expanding the representation letter?

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

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

**Firm and Individual Licenses**

181-1a-1  *Question*—Paragraph .181(1)(a) (appendix B) of the standards advises that firms include representations to the team captain or review captain concerning when management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review). What further guidance should be followed in regards to firm and individual licenses?

*Interpretation*—Firms are required to comply with the rules and regulations of state boards of accountancy and other regulatory bodies in the states where they practice. As a part of the peer review, firms should submit written representations from the firm’s management indicating compliance with such required rules and regulations. If the reviewed firm is aware of any situation whereby they are not in compliance with the rules and regulations of the state boards of accountancy or other regulatory bodies, they should tailor the representation letter to provide information on the areas of non-compliance.
Reviewers should continue to make inquiries of the firm to determine if it is appropriately licensed as required by the state boards of accountancy in the state or states in which it practices. In addition, a reviewer is not prohibited, as a part of a System or Engagement Review, from verifying the practice unit license (firm license) in the state in which the practice unit is domiciled (main office is located). A reviewer is also not prohibited from verifying an out-of-state practice unit license on an individual engagement basis when that engagement is selected for review and was performed by the reviewed firm in another state requiring a firm license.

Testing individual licenses should be limited to inquiry and should not extend to verification unless there is evidence obtained as a part of the peer review that the firm is not accurately representing its compliance with individual licensure requirements.

The reviewer must analyze the information obtained through inquiry and in the written representation letter to determine the impact on the peer review.

**Communication of Report Acceptances**

The state board of accountancy may be sent a list of firms with accepted peer reviews (‘accepted’ as defined in the Interpretations to the standards) in a given period which would allow the state board of accountancy to verify that firms undergoing peer review are licensed in that state.

Entities administering the AICPA Peer Review Program are not prohibited outside of the peer review process from gathering information from firms and communicating to the state boards of accountancy on licensure compliance matters.

**Communications Received by the Reviewed Firm Relating to Allegations or Investigations in the Conduct of Accounting, Auditing, or Attestation Engagements From Regulatory, Monitoring, or Enforcement Bodies**

181-1b-1 *Question*—Paragraph .181 (paragraph 1(b) and (e) of appendix B) of the standards discusses the reviewed firm’s requirement to inform the reviewer of communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported on by the firm. What are the objectives of this requirement and what are some examples, although not an all inclusive list, of such communications?

*Interpretation*—The objective of the firm informing its reviewer of such communications or summaries of communications is to enhance the risk-based approach to peer review by allowing the reviewer to better plan and perform the review, including engagement, industry, office, and owner selection that should be given greater emphasis in the review. It is expected that the reviewer and the firm will discuss these communications and that the firm will be able to submit the actual documentation to the reviewer in those circumstances that the reviewer deems appropriate. The reviewed firm is not required to submit confidential documents to the reviewer but should be able to discuss the relevant matters and answer the reviewer’s questions.

There are many types of communications that are appropriately related to meeting the objectives described in this interpretation. The following list, which is not intended to be all inclusive, represents examples of the types of organizations where communications would be relevant to meeting the objectives of the requirement:

- a. AICPA or State CPA Society Ethics Committees
- b. AICPA Joint Trial Board
- c. State boards of accountancy
- d. SEC
- e. PCAOB
- f. State auditor
g. Department of Labor  
h. Employee Benefits Security Administration  
i. Government Accountability Office  
j. Office of Management and Budget  
k. Department of Housing and Urban Development  
l. FDIC  
m. Office of Thrift and Supervision  
n. Federal or State Inspector General’s Offices  
o. Rural Utility Service  
p. Other governmental agencies or other organizations that have the authority to regulate accountants (in connection with the firm’s accounting, auditing, or attestation engagements)  

181-1b-2 Question—What if a reviewed firm chooses not to discuss or make such communications available to the reviewer during the review?  

Interpretation—If a firm fails to discuss such communications with the reviewer, the reviewer should immediately consult with the administering entity because this constitutes a failure to cooperate, and the firm would be subject to fair procedures that could result in the firm’s enrollment in the program being terminated (see interpretations).  

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