

# PRP Section 3200

## *Peer Review Standards Interpretations*

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Interpretations of the Standards for Performing and Reporting on Peer Reviews (*Standards*) are developed in open meetings by the AICPA Peer Review Board (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 enrolled in the Program, individuals and firms who perform and report on peer reviews, entities that participate in the administration of the Program, associations of CPA firms that assist their members in arranging and carrying out peer reviews, and the AICPA Program staff. Interpretations are effective upon issuance unless otherwise indicated.

**(Issued Through October, 2005)**

## **1. System Reviews Performed at a Location Other Than the Practitioner's Office**

**.01 Question**—Paragraph .04 of the *Standards for Performing and Reporting on Peer Reviews (Standards)* states system reviews may be performed at a location other than the reviewed firm's office. What criteria has been established by the Board?

**.02 Interpretation**—A review conducted at the reviewer's office or another agreed-upon location can achieve the objectives of a system review provided that (1) the reviewed firm is a sole practitioner, (with no professional staff) who performs a total of three or less engagements covered by the SASs, *Government Auditing Standards* or examinations of prospective financial statements under the SSAEs; (2) an authorized representative of the firm holds one or more meetings, by telephone or in person, with the reviewer to discuss the firm's responses to the quality control policies and procedures questionnaire, engagement findings, and the reviewer's conclusions on the review; (3) the firm did not receive a modified or adverse report on its last system or engagement review or a report review with significant comments; and (4) in addition to materials outlined in the "Instructions to Firms Having a System Review" (see *AICPA Peer Review Program Manual*), the firm sends the following materials to the reviewer prior to the review (except as noted below):

- 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 all professional staff concerning their conformity with applicable independence requirements
- d. A written representation, dated the same as the peer review report, as described in paragraph .02f and Appendix B of *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 (see *AICPA Peer Review Program Manual*)
- 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 (see *AICPA Peer Review Program Manual*)

- 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

.03 In the event that deficiencies are noted during the review of selected engagements, the scope of the review may have to be expanded before the review can be concluded.

.04 The firm and the reviewer should mutually agree on the appropriateness and efficiency of this approach to the peer review, especially as it relates to the firm's first system review.

## 2. Engagement Selection in System Reviews

.01 *Question*—Paragraph .63 of the *Standards for Performing and Reporting on Peer Reviews* requires that specific types and/or number of engagements that must be selected on a system review as well as specific audit areas. On a system review, what specific types and/or 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?

.02 *Interpretation*—At least one of each of the following types of engagements is required to be selected for review on a system review:

- a. Governmental—*Government Auditing Standards* (GAS, also known as the Yellow Book), issued by the U.S. Government Accountability Office, require 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 the Employee Retirement Income Security Act of 1974 (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 Federal Deposit Insurance Corporation (FDIC) guidelines implementing the FDIC Improvement Act of 1991 (the Act) 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 Act. If a firm performs an audit of a federally insured depository institution subject to the Act and the peer review is intended to meet the requirements of the Act, at least one engagement conducted pursuant to the Act should be selected for review. The review of that engagement should include a review of the reports on internal control, since those reports are required to be issued under the Act.

## 3. Team Captain and Reviewer Training Courses

.01 *Question*—Paragraph .32e of the *Standards for Performing and Reporting on Peer Reviews* states that reviewers should “have completed a training course or courses that meet requirements established by the Board when

the function of the reviewer goes beyond reviewing engagements.” At what point is the reviewer going beyond reviewing engagements and what specific type of course or courses, if any, should a system review team captain, engagement and report reviewer complete?

**.02 Interpretation**—The reviewer goes beyond reviewing engagements when he or she prepares any other peer review documentation beyond preparing and completing the engagement checklist and MFC forms.

**.03 Interpretation**—To initially qualify as a reviewer as noted in paragraph .02 above, an individual should complete the AICPA two-day introductory reviewer training course, “How to Conduct a Review Under the AICPA Practice-Monitoring Program” (“How to”).

**.04 Interpretation**—In order to maintain qualifications of a reviewer, when the function of the reviewer goes beyond reviewing engagements, individuals should participate in eight (8) hours in continuing professional education in peer review training within three years prior to the commencement of a review. The reviewer should complete a combination of the following courses which combined totals the eight (8) hour requirement: the AICPA two-day introductory “How to” training course; the AICPA one-day advanced reviewer training course, “Advanced Training Course for Reviewers: Current Issues in Practice Monitoring”; the AICPA annual Peer Review Program Conference; or other courses approved by the AICPA Peer Review Board.

**.05 Interpretation**—To qualify initially as an engagement or a report reviewer, an individual should have completed the first day of the AICPA two-day introductory “How to” training course. The first day of the two-day course does not, however, fulfill the initial or continuing education requirements for service as a system review team captain. In order to maintain qualifications as an engagement or report reviewer, individuals should participate in eight (8) hours in continuing professional education in peer review training within three years prior to the commencement of a review. All of the courses mentioned in paragraph .04 of this Interpretation fulfill the continuing education requirements for service as an engagement or a report reviewer (and if the “How to” training course is taken, only the first day needs to be attended).

## 4. Minimum CPE Requirement for Peer Reviewers

**.01 Question**—Paragraph .32b of the AICPA *Standards for Performing and Reporting on Peer Reviews* states that an individual serving as a reviewer should possess current knowledge of applicable professional standards. This includes knowledge about current rules and regulations applicable to the industries for which engagements are reviewed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Is there a minimum amount of continuing professional education (CPE) required to be a reviewer?

**.02 Interpretation**—The fundamental purpose of CPE is to maintain and/or increase professional competence. AICPA members are required to participate in 120 hours of CPE every three years. In order to maintain current knowledge of accounting and auditing standards, reviewers should obtain at least 40 percent of the AICPA required CPE in subjects relating to accounting and auditing. Reviewers should obtain at least eight (8) hours in any one year and forty-eight hours every three years. The term *accounting and auditing* should be interpreted as CPE that would maintain current knowledge of accounting and auditing standards for engagements that fall within the scope of peer review as described in paragraph .03 of the AICPA *Standards for Performing and Reporting on Peer Reviews*.

**.03** Reviewers have the responsibility of documenting that they have complied with the CPE requirement. Reviewers should maintain detailed records of the CPE they complete in the event they are requested to verify their compliance. The reporting period will be the same as the reviewer maintains for the AICPA.

## 5. Independence, Integrity, and Objectivity

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

**.02 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.

**.03 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 also perform a peer review of Firm B?

**.04 Interpretation**—Yes.

**.05 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?

**.06 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.

**.07 Question**—Firm A has an arrangement with Firm B whereby Firm A sends its staff to continuing education programs developed by Firm B. Can Firm B perform a peer review of Firm A?

**.08 Interpretation**—No, unless Firm B has had its continuing education programs reviewed by an independent party. The independent review should be similar to the review of quality control materials and should meet the same review and reporting standards. If such an independent review is not undertaken and reported on before the peer review commences, Firm B would not be considered independent for purposes of conducting the peer review. However, occasional attendance by representatives of Firm A at programs developed by Firm B would not preclude Firm B from reviewing Firm A.

**.09 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?

**.10 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.

**.11 Question**—Firm A is engaged to perform the peer review of Firm B. However, Firm A performed a pre-issuance 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?

**.12 Interpretation**—Yes, unless the following are present:

1. The frequency and extent of the pre-issuance review(s) is such that Firm A is an integral part of Firm B’s accounting or auditing practice or;
2. The pre-issuance review(s) was performed on an engagement within the current peer review year.

**.13 Question**—Firm B uses Firm A’s accounting and auditing manual as its primary reference source. Can Firm A perform a peer review of Firm B?

**.14 Interpretation**—No, unless Firm A has had its accounting and auditing manual and any other of its reference material used by Firm B as a primary reference source reviewed by an independent party. The independent review of the materials should be similar to the review of quality control materials in associations and should meet the same

review and reporting standards. (See AICPA *Peer Review Program Manual*, PRP section 9100.05, *Guidelines for Associations of CPA Firms*.) If such an independent review is not undertaken and reported on before the peer review 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.

**.15 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?

**.16 Interpretation**—No. Although the *Standards for Performing and Reporting on Peer Reviews* state that reciprocal reviews are not permitted, that provision is intended only to prohibit back-to-back reviews when each firm has not had an intervening review by another firm or team.

**.17 Question**—A manager from Firm A served as a team member on the most recent peer review of Firm B. Can a professional from Firm B serve on the peer review team of Firm A?

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

**.19 Question**—Can Firm A be engaged by Firm B to conduct an inspection of Firm B's accounting and auditing practice or a consulting review and subsequently be engaged to perform a peer review of Firm B?

**.20 Interpretation**—Yes.

**.21 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?

**.22 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 professional staff; 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.

**.23 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?

**.24 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.

**.25 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 2500 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?

**.26 Interpretation**—Yes, provided the group has filed a plan of administration with the AICPA Peer Review Program that has been accepted by the AICPA Peer Review Board since the representations in the advertisement are objective or quantifiable.

**.27 Question**—What would constitute "objective and quantifiable" with respect to representations made in advertisements by a group of CPA firms, such as in brochures, pamphlets, web sites, etc.?

**.28 Interpretation**—Representations made in advertisements by a group of CPA firms would be considered “objective and quantifiable” provided that the group of CPA firms maintain documentation to support the representations, and such documentation is available for peer review. For example, if a group 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 a group 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 a group of CPA firms in their advertisements that designate themselves as “the best,” “the finest,” “uniquely qualified,” “prestigious,” “elite,” etc. These superlative descriptions are generic words and terms that are too subjective. Also, such representations in advertisements by a group of CPA firms cannot be readily supportable by any form of documentation that can be peer reviewed.

**.29 Question**—Certain members of an association (i.e., parent association) may form a partnership or sub-association, which is a grouping of association member firms for the purpose of joint marketing of products or services. Can members of the sub-association perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association?

**.30 Interpretation**—Although a member of a sub-association cannot peer review another member of the same sub-association, the existence of a sub-association by itself should not disqualify members of the sub-association from performing peer reviews of nonaffiliated member firms of the parent association. However, members of a sub-association should not perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association 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 sub-association.
- b. The sub-association has the same or a similar name of the parent association.
- c. The parent association and the sub-association share and use the same facilities, such as: offices, telephone numbers, employees, letterhead, and marketing materials.

**.31 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 and/or profits 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?

**.32 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.

**.33 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?

**.34 Interpretation**—Yes.

**.35 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, 2001. In March 2003, Firm A engaged Firm B to perform the peer review of Firm A. Firm A’s peer review year-end is December 31, 2002. Can Firm A perform the peer review of Firm B?

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

## 6. Individual Enrollment in the AICPA Peer Review Program

**.01 Question**—The membership of the AICPA has amended its Bylaws to require individual CPAs to enroll (not the firm) in an Institute-approved practice-monitoring program if they perform compilation services in firms or organizations not eligible to enroll in such a program. To reflect this amendment, paragraph .02 of the *Standards* now refers to “firms and individuals in the AICPA peer review program.” What is meant by “firms or organizations not eligible to enroll,” and can any AICPA member enroll in the AICPA Peer Review Program (Program) as an individual?

**.02 Interpretation**—Prior to the Bylaw amendment, individuals did not enroll in an Institute-approved practice-monitoring program. Only firms meeting the requirements under The Code of Professional Conduct (ET Appendix B, *Council Resolution Concerning Rule 505—Form of Organization and Name*), would have been eligible to enroll as a firm in the Program. The main attribute of such a firm is still that a majority of the ownership of the firm, in terms of financial interests and voting rights, must belong to CPAs. The amendment to the Bylaw would not change the requirement that a firm must enroll in the Program if the majority of the ownership belongs to CPAs. 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 (referred to above). Under the Bylaw amendment, where the firm or organization is not eligible to enroll, such as due to a lack of majority ownership by CPAs, and the individual AICPA member performs compilation services in the firm or organization, the AICPA member is now required to enroll individually in an Institute-approved practice-monitoring program. Therefore, the Bylaw amendment only allows AICPA members meeting these criteria to enroll individually. Individual AICPA members who are only practicing with a firm that is eligible to enroll in an AICPA approved practice-monitoring program may not enroll in such a program individually.

**.03 Question**—The *Standards for Performing and Reporting on Peer Reviews (Standards)* as well as its Interpretations and guidance materials for the Program, use the term “firm” throughout the materials. When an individual is appropriately enrolled in the AICPA peer review program how does the term “firm” now apply to the enrolled individual and are there any situations where the *Standards*, Interpretations or Guidance is intended to be directed at the actual firm or organization that was not eligible to enroll?

**.04 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 and 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.

**.05 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, and if applicable, the letter of comments?

**.06 Interpretation**—As with any peer review, the types of engagements performed dictate the type of peer review required. Since the enrolled individual could only be performing compilation services, this would dictate the peer review required. However, the individual could elect to have a higher level peer 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 a firm or organization. Similarly, the report, and if applicable, the letter of comments and 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. The AICPA Peer Review Board may specifically revise the peer review materials at a later date, in order to reflect enrolled individuals.

**.07 Question**—If an individual enrolled in the Program receives 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?

**.08 Interpretation**—Yes. However, the individual alone would be the peer reviewer and not the firm or organization that was not eligible to enroll in an Institute-approved practice-monitoring program. The peer reviewer should make this fact very clear.

**.09 Question**—As discussed in paragraph .119 of the *Standards*, can a hearing panel decide to terminate an individual's enrollment in the AICPA peer review program?

**.10 Interpretation**—Yes. The due process 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 an Institute-approved practice-monitoring program, with which the individual was practicing, is not published.

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

**.01 Question**—The Statement on Standards for Accounting and Review Services (SSARS) No. 1 has been amended by SSARS No. 8, Amendment to Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*, to include compilations of financial statements where in very specific situations, the accountant may document its 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 (i.e. compilation for management's use only). The AICPA Bylaws state that firms (or individuals in certain situations) are only required to enroll in an Institute-approved practice-monitoring 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 .03 of the *Standards*, would not be required to enroll in an Institute-approved practice-monitoring program. Would the compilations for management's use only be subject to peer review when the firm is already enrolled in the peer review program because, for example, it performs services and issues reports on other engagements that are within the scope of the AICPA's practice-monitoring standards?

**.02 Interpretation**—Yes. For firms enrolled in the AICPA peer review program, the compilations for management's use only as described in the Statement on Standards for Accounting and Review Services No. 8 would fall within the scope of peer review. The *Standards for Performing and Reporting on Peer Reviews* (and *Statement on Quality Control Standards No. 2*) include within the definition of an accounting and auditing practice, all engagements covered by SSARS except where SSARS provides an exemption from those standards.

**.03 Question**—The current *Standards for Performing and Reporting on Peer Reviews* and guidance materials are written referring to "reports" throughout and do not consider an engagement performed under the Statement on Standards for Accounting and Review Services No. 8 where a compilation report is not issued. What general guidance should be followed by peer reviewers?

**.04 Interpretation**—Since all of the *Standards for Performing and Reporting on Peer Reviews (Standards)* and related guidance materials will not currently be rewritten for this matter, for purposes of the AICPA peer review program only, the required documentation as detailed in the Statement on Standards for Accounting and Review Services No. 8 should be treated as though they were “reports” (as reports are discussed and referred to in the *Standards*). This documentation would not be considered “reports” for bylaw purposes.

**.05 Question**—On an engagement review, should the last sentence of the unmodified or modified report still refer to documentation when, for example, the engagements reviewed include a compilation with disclosures and a management use only compilation issued with an engagement letter?

**.06 Interpretation**—Yes, because although the engagement letter is treated like a “report” for peer review purposes, it is still considered a documentation requirement under SSARS.

**.07 Question**—Specifically, what should the peer reviewer be reviewing on such an engagement on a system, engagement or report review?

**.08 Interpretation**—The Statement on Standards for Accounting and Review Services (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 review the engagement letter to determine that the documentation of the understanding includes the requirements detailed in SSARS No. 8. 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.

**.09 Question**—Must a peer reviewer select such an engagement on a system, engagement or report review?

**.10 Interpretation**—No. This engagement is not a new level of service. It is still a compilation that either contains all disclosures required by generally accepted accounting principles or an other comprehensive basis or the disclosures are omitted. The *Standards for Performing and Reporting on Peer Reviews* already discuss the engagement selection process for such engagements in engagement and report reviews. In addition, a system review requires the peer reviewer to use a risk-based approach when selecting engagements. The Statement on Standards for Accounting and Review Services No. 8 does not change the existing engagement selection process.

**.11 Question**—Should the standard language in the peer review report or letter of comments be tailored on a system, engagement or report 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?

**.12 Interpretation**—No.

## 8. Defining the Acceptance and Completion Dates on a Peer Review

**.01 Question**—The *Standards for Performing and Reporting on Peer Reviews (Standards)* refer to *acceptance* and *completion* of peer reviews in several contexts, such as when a review can be publicized, and the qualifications for service as a peer reviewer and a committee member. Is there a difference between the acceptance and completion dates of a peer review?

**.02 Interpretation**—There is no difference in those cases where the report, letter of comments and letter of response, thereto, if applicable (peer review documents) are presented to the administering entity’s peer review committee (committee), and the committee requires no corrective action(s) 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 on a report 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.

**.03 Interpretation**—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). 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 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.

**.04 Interpretation**—In either of the situations described in paragraphs .02 or .03 above, the committee may require revisions to any of the peer review documents. In those cases, a review may not be deemed as accepted nor completed until such time that the peer review document(s) is (are) revised to the satisfaction of the committee.

## 9. Significant Matters and Comments on a Report Review

**.01 Question**—Paragraphs .79, .108d and .116 of the *Standards* and the acknowledgement sentence in the report issued on a report review (Appendix X), refers to “significant matters,” “significant issues” and “significant comments.” What are some types of matters, issues and comments that should be deemed as significant for purposes of a report review?

**.02 Interpretation**—Significant matters on a report review may include, but are not limited to: matters that the technical reviewer may deem significant enough to warrant committee consideration on a case by case basis such as: reviewer performance issues, overdue reviews, firm’s written representations that indicate a failure to comply with a regulatory requirement, and unusual technical issues or reviews with a separate response, where although not always required, may be appropriate for committee consideration.

**.03 Interpretation**—Significant comments on a report review may include incomplete, missing, or incorrect elements of the report or financial statements where corrective action imposed by the peer review committee and taken by the firm would be appropriate. Examples of these types of significant comments include but are not limited to:

- a. Financial statements prepared on an other comprehensive basis of accounting and that basis is not disclosed in either the accountant’s report or the financial statements.
- b. Failure to include a statement of cash flows in a GAAP prepared statement without modifying the accountant’s report.
- c. Omission of an actual financial statement(s) that is (are) referred to in the report.
- d. Financial statements departed from professional standards, for example, in the area of revenue recognition and the report was not appropriately modified.
- e. Financial statements include a material balance that was not appropriate for the basis of accounting used.
- f. Failure to include in the accountant’s report any of the following:
  - i. A compilation has been performed in accordance with SSARS issued by the AICPA.
  - ii. A compilation is limited to presenting in the form of financial statement information that is the representation of management (owners).

- iii. The financial statements have not been audited or reviewed and accordingly, the accountant does not express an opinion or any other form of assurance on them.
- iv. The paragraph representing that management has elected to omit substantially all of the required disclosures required by GAAP or OCBOA.
- v. Any of the periods covered by the financial statements, and it cannot be determined from reading the financial statements.
- vi. Lack of independence when appropriate to do so.
- g. Failure to document the understanding with the entity through the use of an engagement letter, and/or indicate a reference on each page of the financial statements that they are “restricted for management’s use only” (when no report is issued) as required by SSARS No. 8.
- h. Failure to document any of the required descriptions and statements in the engagement letter required by SSARS No. 8 (except for a reference to supplementary information, if applicable).
- i. Failure to have an individual license to practice public accounting.

**.04 Question**—What ordinarily would not be considered a significant comment?

**.05 Interpretation**—Comments that would not ordinarily be considered significant include, but are not limited to:

- a. The titles on the financial statements are not consistent with the report issued, but the basis of accounting is readily determinable.
- b. The accountant’s report does not cover all periods covered by the financial statements but the periods covered are identified in the body of the financial statements.
- c. Failure to indicate the level of responsibility in the report taken for supplemental information that is presented with the financial statements.
- d. The report indicates the basis of accounting presented, but doesn’t indicate that it is an other comprehensive basis of accounting.
- e. Failure to refer to the accountant’s report on each page of the financial statements.
- f. Failure to comply with certain regulatory requirements as indicated in the firm’s written representations to the reviewer.
- g. Other minor report-dating departures.
- h. Repeat peer review findings identified by the reviewer on matters not considered significant where the recommendation is different or more comprehensive than on the prior peer review.

## 10. Peer Review Material Retention Policies

**.01 Question**—What period of time should peer review materials be retained?

**.02 Interpretation**—Peer review materials prepared during system, engagement and report reviews, with the exception of those described in paragraphs .03, .04 and .05 below, should be retained by the administering entity or the entity that formed the review team until 90 days after the peer review is completed (see Interpretation No. 8). The administering entity’s peer review committee or the AICPA Peer Review Board (Board) may indicate that any or all materials should be retained for a longer period of time, because, for example, the review has been selected for oversight. All peer review materials are subject to oversight or review by the administering entity, the Board, or other bodies the Board may designate, including their staff. All peer review materials prepared by the administering entities are subject to oversight by the Board.

**.03** Administering entities should retain the following materials until the firm's subsequent peer review has been completed:

- a. Peer review report
- b. Letter of comments and the firm's response thereto, if applicable
- c. Letter notifying the firm that its peer review has been accepted
- d. Letter signed by the firm indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions, if applicable
- e. Letter notifying the firm that certain required actions have been completed, if applicable
- f. Settlement agreements received by the administering entity from the AICPA Professional Ethics Division related to individual members performance on accounting, auditing or attestation engagements

**.04** 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

**.05** 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 materials in paragraph .03 should still be retained. The administering entity may also choose to retain the administrative materials in paragraph .04. The materials 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.

## 11. Resignations From and Reenrollment to the AICPA Peer Review Programs

**.01** *Question*—Under what conditions may a firm resign from the Program?

**.02** *Interpretation*—A firm not in the course of a peer review 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 paragraph .03 below. A peer review commences when the review team begins field work on a system review or begins the review of engagements on engagement and report reviews. The submission by the firm of a resignation from the Program during the course of its peer review 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.

**.03** *Interpretation*—A firm will be allowed to resign during the course of a peer review when the firm submits a letter waiving its right to a hearing and agrees to allow the AICPA to publish, in such form and manner as the AICPA Council may prescribe, the fact the firm has resigned from the Program. However, if (a) the firm has been notified of the reviewer's or administering entity's intent to issue or require a modified or adverse report or a report review with significant comments or (b) the reviewer or administering entity have 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 firm will only be allowed to resign when

the firm waives its right to a hearing and agrees 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 and that the situation in *a* or *b* above existed.

**.04 Interpretation**—A firm that has been terminated from the Program may reenroll in the Program once it completes the delinquent action which 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.

## 12. Other Enrollment Requirements

**.01 Question**—Paragraph .07 of the *Standards for Performing and Reporting on Peer Reviews* states “See Interpretations for other enrollment criteria, such as those firms that are required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB).” What are some of the other enrollment requirements that firms need to meet to be eligible for enrollment (or continued enrollment) in the AICPA Peer Review Program?

**.02 Interpretation**—Firms that are *required* to be registered with and inspected by the Public Company Accounting Oversight Board are not eligible to enroll in the AICPA Peer Review Program. Such firms must enroll in the Center for Public Company Audit Firms Peer Review Program.

**.03 Interpretation**—Firms (not subject to paragraph .02 above) that perform audits of non-SEC issuers pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB) are eligible to enroll in the AICPA Peer Review Program. However, engagements performed pursuant to the standards of the PCAOB will be excluded from the firm’s peer review and the peer review report would include a scope limitation without exception. Firms have the option of enrolling in the Center for Public Company Accounting Firms Peer Review Program where the engagements would be included in the scope for possible selection in the peer review.

**.04 Interpretation**—The AICPA Peer Review Board has issued a Resolution regarding dropping a firm’s enrollment from the AICPA Peer Review Program which is as follows:

### **AICPA Peer Review Board Resolution (Adopted April 29, 1996 with amendments through January 1, 2005)**

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 administering entity and with 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 performance of that peer review,
- (2) Timely submit requested information to the reviewer necessary to plan or perform the firm’s 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 state CPA society, 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 has been dropped.

**.05 Interpretation**—The AICPA Peer Review Board has issued a Resolution regarding terminating a firm's enrollment from the AICPA Peer Review Program which is as follows:

**AICPA Peer Review Board Resolution  
(Adopted April 29, 1996 with amendments through January 13, 2004)**

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 administering entity and with the AICPA Peer Review Board in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: A firm that fails to cooperate with the administering entity by (1) failing to timely file the report (signed by the firm on a report review), letter of comments, if any, and the response thereto related to its peer review or (2) failing to timely acknowledge and complete required corrective or monitoring actions 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 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 enrolled in the AICPA peer review program 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 an unmodified peer review after (1) receiving at least two consecutive peer reviews prior to the third that were modified and/or adverse AND (2) receiving notification via certified mail after the second consecutive modified and/or adverse peer review report that a third consecutive failure to receive an unmodified peer review report may be considered a failure to cooperate with the administering entity. Report reviews containing significant comments are considered equivalent to failing to receive 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 a firm's failure to cooperate.

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 above 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.

### 13. Communications Relating to Allegations or Investigations in the Conduct of Accounting, Auditing or Attestation Engagements

**.01 Question**—Paragraphs .35 and .50 of the *Standards for Performing and Reporting on Peer Reviews* discuss communications relating to allegations or investigations in the conduct of accounting, auditing or attestation engagements and “See Interpretation(s).” What are the objectives of these requirements and what are some examples, although not an all inclusive list, of such communications?

**.02 Interpretation**—The objective of the firm making such communications available to the reviewer 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 emphases in the review. It is expected that the reviewer and the firm will discuss these matters but the firm will only have to *submit* actual documentation to the reviewer in those circumstances that the reviewer deems appropriate.

**.03 Question**—What if a reviewed firm chooses not to make such communications available (or submit documentation) to the reviewer during the review?

**.04 Interpretation**—If a firm fails to make available such communications to the reviewer (or submit documentation), the reviewer should immediately consult with the administering entity to determine whether this failure should result in a scope limitation in the peer review report.

**.05 Interpretation**—The objective of the reviewer making such communications available to the administering entity is to enhance the AICPA Peer Review Program’s oversight process which includes ensuring that peer reviewers are appropriately qualified.

**.06 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?

**.07 Interpretation**—If a reviewer fails to immediately notify the administering entity of such communications, the administering entity’s peer review committee and/or the AICPA Peer Review Board will consider what actions should be taken in the specific circumstances. These actions may include, but is not limited to, on-site oversight at the reviewer’s expense or removal from the list of qualified peer reviewers.

**.08 Interpretation**—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. Security and Exchange Commission
- e. Public Company Accounting Oversight Board
- 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. Federal Deposit Insurance Corporation
- m. Office of Thrift and Supervision
- n. Federal or State Inspector General's Offices
- o. Other governmental agencies or other organizations that have the authority to regulate accountants (in connection with the firm's accounting, auditing, or attestation practice)
- p. Legal letters (in connection with the firm's accounting, auditing, or attestation practice)

## 14. Ethics Interpretation No. 101-3 and its Affects on Peer Review

**.01 Question**—Where should reviewers and other interested parties obtain guidance on Ethics Interpretation No. 101-3 as it relates to system, engagement and report reviews?

**.02 Interpretation**—Reviewers should be aware of guidance that the Board issues, not only via Interpretations, but also in the Reviewers Alert as well as other guidance that may be issued via email to reviewers and /or placed on the AICPA Peer Review Program Website.

**.03 Question**—Since reviewers are required to test the documentation requirements in Ethics Interpretation No. 101-3, which are contained in the AICPA Code of Professional Conduct (which is included in Professional Standards) but are not contained in the Statements on Standards for Accounting and Review Services (SSARS) or the Statements on Standards for Attestation Engagements (SSAEs), why do the *Standards for Performing and Reporting on Peer Reviews (Standards)* related to engagement reviews only refer to the documentation requirements of SSARS and the SSAEs?

**.04 Interpretation**—The PRB developed engagement reviews effective in 2001 such that the engagement review report referred to the firm meeting the reporting requirements of “professional standards” and the documentation required by SSARS and the SSAEs. The Board chose not to refer to the documentation requirements of “professional standards” simply because all of the documentation requirements were contained in SSARS and the SSAEs. The only exception to this is that the Statement on Quality Control Standards (SQCS) No. 3 requires all firms with an accounting and auditing practice to document its compliance with the monitoring element of quality control (testing of which is not included within the scope of an engagement review). To avoid confusion, and rather than engagement reviews referring to “documentation required by professional standards except for those in the SQCS,” the easiest language chosen to be used in engagement reviews was simply refer to “SSARS and the “SSAEs.”

**.05** Ethics Interpretation No. 101-3 was issued with a documentation requirement. The Board has therefore made a conforming change to the *Standards* by expanding the documentation included within the scope of an engagement review from just SSARS and the SSAEs to other AICPA professional standards. This is within the spirit and intent of what the Board was attempting to accomplish (reviewing the firms documentation) when engagement reviews were created.

**.06** The Board recognizes that by making this conforming change, the *Standards*, including the engagement review report itself and various guidance, should be changed to refer to the documentation requirements of “professional standards” rather than the “SSAEs and SSARS.” In lieu of reissuing all of the *Standards* and Guidance for this matter at this time, the Board is issuing this Interpretation which serves to instruct reviewers (and inform other interested parties) that effective with the issuance of this Interpretation, the language in the second and third paragraphs of unmodified and modified engagement review reports; “Statements on Standards for Accounting and

Review Services (SSARS) and the SSAEs”/“SSARS and SSAEs,” respectively, should be replaced in both places with “professional standards.” In an adverse engagement review report, the same applicable language change would be made in the second paragraph.

**.07** Reviewers should be aware that wherever the *Standards* or Guidance refers to the documentation required by the SSARS and SSAEs (such as but not limited to the *Standards* regarding performing engagement reviews paragraphs 71-78, reporting on engagement reviews paragraphs 99-106, and Appendices P-W (paragraphs 148-155), the intent is to include the documentation requirement of professional standards including Ethics Interpretation No. 101-3.

**.08 Question**—Can reviewers choose to refer to the documentation requirements of SSARS, SSAEs, and the AICPA Code of Professional Conduct in the second and third paragraphs of the engagement review report rather than just referring to “professional standards” as discussed in this Interpretation?

**.09 Interpretation**—No. Reviewers should follow the specific reporting language discussed in this Interpretation.

**.10 Questions**—Are there any other documentation requirements outside of SSARS and the SSAEs that may be in other AICPA professional standards that reviewers should be testing and reporting on in an engagement review?

**.11 Interpretation**—The Board will monitor this and issue additional guidance if any other such documentation requirements are issued.