
EXPOSURE DRAFT

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

Performing and Reporting on Reviews of Quality Control Materials

August 22, 2011

Comments are requested by September 20, 2011

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

**Comments should be received by September 20, 2011 and addressed to
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August 22, 2011

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

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to LaShaun King, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 20, 2011. Electronic submissions of comments or suggestions in Microsoft Word should be sent to PR_expdraft@aicpa.org by September 20, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after October 20, 2011 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards*, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* are struck through, and new items are underlined).

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

Sincerely,

A handwritten signature in cursive script that reads "Daniel J. Hevia".

Daniel J. Hevia
Chair
AICPA Peer Review Board

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Explanatory Memorandum

Introduction

This memorandum provides explanatory information for the proposed changes to the AICPA Standards for Performing and Reporting on Peer Reviews (“Standards”) issued by the AICPA Peer Review Board (“the Board”). The proposed changes would:

- Amend the peer reviewer qualifications in paragraph 31
- Replace paragraphs 167 – 170 with new paragraphs 167 – 189 on planning and performing QCM reviews (other paragraphs re-numbered as appropriate)
- Add new paragraphs 198 – 202 addressing QCM reviewer and provider cooperation
- Add new paragraphs 203 – 204 addressing publicizing QCM review information
- Amend and add new interpretations that further address the above changes

Background

Reviews of quality control materials (QCM) have continued to be an area of interest. The current guidance in the Standards refers QCM reviewers to other sections of the Standards for additional information on planning, performing, and administering QCM reviews. While there are some similarities between the process and procedures for reviewing a firm’s system of quality control and reviewing both a provider’s system of quality control and the resultant materials, there are also many differences not adequately addressed in the Standards. In response to questions and feedback from both QCM reviewers and providers of QCM, the Peer Review Board (PRB) clarified aspects of performing and administering QCM reviews through the proposed revisions.

Comment Period

The comment period for this exposure draft ends on September 20, 2011.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA’s website after October 20, 2011, for a period of one year.

Explanation of Proposed Changes

Amendments to Existing Standards

Paragraph 31 addresses the minimum requirements necessary for a reviewer on a System or Engagement Review. The proposed change to paragraph 31 adds a requirement that the reviewer is associated with a provider firm or affiliated entity (if applicable) that has received a QCM report with a review rating of *pass*. If a reviewer is from a firm that is either a provider of QCM or is affiliated with a provider of QCM that received a QCM report with a review rating of *pass with deficiencies* or *fail* on its most recent review, the reviewer would not be qualified to serve as a reviewer on the System or Engagement Review of another firm.

Paragraphs 166 – 188 revises and enhances the current guidance on planning and performing QCM reviews by clarifying which materials are subject to the scope of the review, identifying risk assessment considerations, how to evaluate if the materials are reliable aids, and identifying matters, findings, deficiencies, and significant deficiencies.

Additions to the Standards

Paragraphs 198 – 202 address the provider's and the reviewer's cooperation during a QCM review, including the impact of non-cooperation on the provider's independence and the reviewer's ability to gain approval to perform future QCM reviews or peer reviews.

Paragraphs 203 – 204 address publicizing the results of QCM reviews, including posting the results on the AICPA's website after review acceptance.

Amendments and Additions to the Interpretations

The Board is not required to expose changes to the Peer Review Standards Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed amendments and additions to the Standards.

The proposed changes re-numbers Interpretation 169-1 to Interpretation 175-1 to reflect the updated numbering in the changes to the Standards. The interpretation also provides additional guidance on assessing whether QCM are reliable aids.

The proposed changes also include new Interpretations 174-1, 199-1 and 199-2 that further explain the revised guidance in the related paragraphs.

The proposed changes strike existing Interpretation 169-2.

Guide for Respondents

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

Comments and responses should be sent to LaShaun King, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 20, 2011. Respondents can also direct comments and responses to PR_expdraft@aicpa.org by September 20, 2011.

Effective Date

Revisions to the *Standards* adopted as final by the Peer Review Board will be effective for all reviews commencing on or after January 1, 2012.

Proposed Revisions to the Peer Review Standards

Qualifying for Service as a Peer Reviewer

System and Engagement Reviewers

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

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

Peer Reviewers’ Performance and Cooperation

.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, or QCM reviewer~~ unless the condition is specific to the individual’s service as only a team captain, review captain, ~~or team member, or QCM reviewer~~.

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

~~Procedures for Planning and Performing QCM or CPE Reviews~~

~~.167 A QCM review should include procedures to plan and perform the review. The provider should identify the specific materials subject to the QCM review that will be opined upon in the report. Procedures to test the provider’s system of quality control should be determined based on the specific materials included in the scope of the review.~~

~~**.167.168** Once materials are identified for review purposes, they cannot be subsequently excluded from the scope of the review without resulting in a scope limitation. If the QCM review is required because the provider firm plans to peer review user firms, ordinarily all of the provider firm’s materials should be included in the scope of the QCM review. If specific materials are excluded from the scope of the QCM review, then the provider firm will not be independent of firms that use those specific materials excluded from the scope of the QCM review. 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.

Planning Considerations

.169 The team captain should obtain the prior QCM report, the letter of response (if applicable), and the acceptance letter from the provider. The team captain should also obtain the prior FFC forms (if applicable) from the National PRC. The team captain should consider whether the issues discussed in those documents require additional emphasis in the current review, and evaluate the provider’s actions in response to the prior report.

.170 In addition, the review team should assess the risk associated with QCM reviews. This is the risk that the review team:

- a. Fails to identify significant weaknesses in the provider’s system of quality control for the development and maintenance of its quality control materials, its lack of compliance with that system, or a combination thereof.
- b. Fails to identify significant weaknesses in the materials.
- c. Issues an inappropriate opinion on the provider’s system of quality control for the development and maintenance of its quality control materials, its compliance with that system, or a combination thereof.
- d. Issues an inappropriate opinion on the materials.
- e. Reaches an inappropriate decision about the matters to be included in, or excluded from, the report.

.171 QCM review risk consists of:

- a. The risk (consisting of *inherent risk* and *control risk*) that the quality control materials are not reliable aids, that the provider’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 design and/or compliance deficiencies or significant deficiencies in the provider’s system of quality control or in the resultant materials.

.172 In planning the review, the QCM review team should assess and document the relevant inherent and control risk factors, and how the combined risks impact detection risk and, therefore, the scope of review procedures. This assessment should include but is not limited to consideration of the nature and environment of the provider (including economic and competitive pressures), experience with developing and maintaining QCM, the level of risk, complexity and change inherent in the industries and professional standards covered by the QCM, prior findings on previously-issued materials and the disposition of those findings, and any investigations, allegations, or restrictions on authors and technical reviewers (including outside and guest authors and/or technical reviewers).

Understanding the Provider’s System of Quality Control

~~168.173~~ A provider's system of quality control for the development and maintenance of the materials normally should include:

a. A requirement that the provider's system of quality control be documented.

b. A requirement that the provider perform on-going monitoring of its system of quality control.

~~a~~c. A requirement that the materials be developed and maintained by individuals qualified in the subject matter.

~~b~~d. 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.

e. Procedures to ensure that the individuals that develop, maintain, and/or review the materials for technical accuracy are appropriately qualified in the subject matter.

~~e~~f. Procedures to ensure the currency and relevancy of the materials that the materials are current and address the relevant professional standards and industry guidance.

~~e~~g. Procedures for soliciting and evaluating feedback from users of the materials.

eh. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials.

fi. Procedures and the provider's policy, (if any,) regarding the issuance of updates to the materials and, if a policy exists, the method of updating; if the provider's policy is not to provide updates to the materials between versions, then the procedures for communicating this policy to users.

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

k. Procedures for ensuring that the system of quality control as designed is operating effectively.

~~169.174~~ 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 monitoring the system of quality control, and assessing how any findings or issues were resolved.

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

~~b~~c. 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).

ed. Reviewing the technical competence of the developer(s) ~~or~~ and updater(s) (if applicable) of the materials.

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

ef. 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~~ policy regarding update-updating the materials.

fg. Reviewing the system developed for soliciting and evaluating feedback from users of the materials.

Performing Tests of the Materials

~~**.170.175** The scope of the QCM review includes all of the materials identified by the provider and covered in the opinion (see paragraph 167). The extent to which individual manuals, guides, checklists, practice aids, etc. are reviewed is subject to the QCM review team's judgment and should be documented in the risk assessment (see interpretations). For QCM reviews of provider firms, all materials should be within the scope of the review. 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.~~

.176 For all of the materials tested, the QCM review team should assess whether or not the materials are reliable aids. This includes evaluating whether the materials can assist users in conforming with all those components which are integral to the professional standards that the materials purport to encompass. The QCM review team performs this evaluation by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate (see interpretations).

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.177 In evaluating the provider's system of quality control, the QCM review team may note that the system is not appropriately designed or complied with. Similarly, the tests of the provider's materials may uncover that design weaknesses or lack of compliance with the system resulted in one or more materials that do not reach the threshold of reliable aids. With any of these items, the QCM review team has available a set of definitions to assist in classifying the condition noted.

.178 Determining the relative importance of matters noted during the QCM review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow are intended to assist in aggregating and evaluating the QCM review results, concluding on them, and determining the nature of the QCM review report to issue:

a. A matter is noted as a result of

- i. the QCM reviewer's evaluation of the design of and compliance with the provider's system of quality control. Matters can be one or more "No" answers to questions in QCM review

questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a provider's system of quality control.

- ii. the QCM reviewer's evaluation of whether the materials submitted for review are reliable aids. Matters can arise from either the reviewer's comments based on tests of the materials, or one or more "No" answers to questions in QCM review questionnaire(s) that the reviewer concludes warrants further consideration by the provider in the evaluation of the materials.

A matter is documented on a Matter for Further Consideration (MFC) form.

b. A finding is one or more matters that result from

- i. a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop and/or maintain reliable aids, and/or
- ii. the QCM reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass.

A QCM reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the QCM 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

- i. the QCM reviewer has concluded, due to the nature, causes, pattern, or pervasiveness, could create a situation in which the provider would not have reasonable assurance of developing and/or maintaining reliable aids, and/or
- ii. impacts the reliability of one or more of the materials tested, such that one or more of the materials do not encompass the components which are integral to the professional standards that the materials purported to encompass.

This includes the relative importance of the finding to either the provider's system of quality control taken as a whole, or any of the materials tested (individually or collectively). It is not a significant deficiency if the QCM reviewer has concluded that except for the deficiency or deficiencies the provider has reasonable assurance of developing and maintaining reliable aids, or the nature of the deficiency or deficiencies is limited to a small number of the total materials reviewed. Such deficiencies are communicated in a report with a QCM review rating of *pass with deficiencies*.

d. A significant deficiency is one or more deficiencies that the QCM reviewer has concluded results from a condition in the provider's system of quality control where the system taken as a whole does not provide reasonable assurance of developing and/or maintaining reliable aids, and has impacted the reliability of one or more of the materials reviewed.

Such deficiencies are communicated in a report with a QCM rating of *fail*.

Aggregating and Evaluating Matters in the Provider's System

.179 The review team must aggregate matters noted during the review of the provider's system to develop and maintain the materials in order to conclude on the opinion over the provider's system. This entails determining whether any matters noted were the result of the design of the provider's system of quality control or the failure of its personnel to comply with the provider's quality control policies and procedures. The review team should consider their relative importance to both the provider's system of quality control as a whole and the impact on the materials (individually and collectively), and their nature, causes, pattern, and pervasiveness.

.180 The use of professional judgment is essential in determining whether matters should be aggregated as findings, and whether one or more findings is a deficiency or significant deficiency.

Design Matters

.181 A design matter in a QCM review exists when the provider's system of quality control is missing a quality control policy or procedure, or the provider's existing quality control policies and procedures (even if fully complied with) would not result in the development and/or maintenance of reliable aids in one or more respects. 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 provider with reasonable assurance of developing and maintaining reliable aids 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 review of the materials.

.182 The relative importance of design matters noted in the provider's quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the provider's organizational structure, the nature of its practice, the number of users, etc. For example, a matter noted during the review of a quality control policy or procedure may be partially 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.

.183 There may be circumstances in which the reviewer finds few findings in the materials developed and maintained by the provider, yet may conclude that the design of the provider's system of quality control needs to be improved. For example, a provider that has a rapidly growing customer base may not have appropriately revised its policies and procedures to solicit user feedback. However, this type of finding may not result in less than reasonable assurance of developing and/or maintaining reliable aids. 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 QCM review rating of *pass with deficiencies or fail*.

Compliance Matters

.184 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 provider to comply with it. Since a

variance in individual performance 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 provider with its prescribed quality control policies and procedures should be adequate to give the provider reasonable assurance of developing and maintaining reliable aids.

.185 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 provider's system of quality control as a whole, as well as 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 provider's organizational structure, the nature of its practice, the number of users, etc.

.186 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 provider is more critical to the provider obtaining reasonable assurance of developing and maintaining reliable aids. In this context, the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in materials that are not reliable aids. The more direct the relationship between a specific quality control policy or procedure and the reliability of the aids, 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.

Aggregating and Evaluating Matters in the Provider's Materials

.187 The review team must also aggregate matters noted during the QCM review in order to conclude on the separate opinion on the reliability of the materials. Any design or compliance matters will usually be addressed in the consideration of the provider's system. However, all matters that impact the system also have to be evaluated for their impact and relative importance on the individual materials reviewed and opined upon in the report. The use of professional judgment is essential in determining whether matters should be aggregated as findings, and whether one or more findings is a deficiency. One or more deficiencies in the materials is indicative of a deficiency or significant deficiency in the provider's system of quality control.

.188 The review team should consider whether design matters noted in the review of the provider's quality control system, individually and in the aggregate, impact the reliability of the materials. For example, a provider may not specify in its policies and procedures that authors must have a certain level of professional experience and/or expertise. In this circumstance, the review team should consider whether this design matter resulted in a potentially inexperienced or otherwise unqualified author writing portions of the materials, and whether those portions of the materials are technically accurate, to determine the impact on the reliability of the materials, and whether a finding or deficiency exists with respect to the materials.

.189 Similarly, the review team should consider whether compliance matters noted in either the review of the provider's quality control system or in the tests of the materials impact the reliability of the aids. For example, personnel that performed technical review on a particular industry manual may not have obtained the appropriate type or amount of CPE for that industry in compliance with the provider's policies and procedures. In this circumstance, the review team should consider if this compliance matter resulted in a failure to include new or recent changes in professional standards or industry guidance, or other omissions, to determine whether a finding or deficiency exists with respect to the materials.

Cooperating in a QCM Review

.198 Providers that undertake to have a QCM review under these standards have a responsibility to cooperate with the QCM reviewer, National PRC, and the board in all matters related to the QCM review.

.199 If a provider firm fails to cooperate during the course of a QCM review, the provider firm's independence with respect to user firms may be impaired (see interpretations).

QCM Reviewers' Performance and Cooperation

.200 A QCM reviewer has a responsibility to perform a QCM 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 resolving questions raised by the National PRC, as well as the board and AICPA staff.

.201 In considering QCM review documents for acceptance, the National PRC evaluates the reviewer's performance on the QCM review. In addition to the National PRC's evaluation, the board and AICPA staff also evaluate and track reviewers' performance on both peer reviews and QCM reviews.

.202 If weaknesses in a QCM reviewer's performance are noted on a particular QCM review (e.g. submitting incomplete review documentation, not performing sufficient review procedures, a failure to resolve questions raised by the committee or technical reviewer, etc.), or if the QCM reviewer refuses to cooperate with the National PRC at any time during the review process, the reviewer will be required to comply with the actions described in paragraphs 148 – 153. In addition, the National PRC has the discretion to no longer approve that individual to perform future QCM reviews, or other peer reviews.

Publicizing QCM Review Information

.203 The provider should not publicize the results of the review or distribute copies of the QCM report to its personnel, users, or others until it has been advised that the report has been accepted by the National PRC.

.204 Providers that elect or are required to have a QCM review under these standards agree that the National PRC and the AICPA may disclose the following information to allow peer reviewers of user firms to easily obtain this information for consideration during the user firm's peer review:

a. The provider's name

b. The results of the QCM review (i.e. report, LOR (if applicable), etc)

c. The date of acceptance and the year covered by the provider's most recently accepted QCM review

Independent QCM Reviews

174-1 *Question*—In a QCM review, the standards note the review team determines and documents the extent to which individual manuals, guides, checklists, practice aids, etc. are reviewed. What should the QCM reviewer consider when making this judgment?

Interpretation—Because the QCM review report opines on both the quality control system and the specific materials or aids listed in the report, all of those materials or aids listed must be tested to some extent in order to support the opinion. However, the QCM reviewer can judgmentally determine the extent of testing or review procedures necessary on each aid. Considerations include areas within the materials or aids that address new guidance or changes in professional standards, areas that address procedures that rely heavily on judgment, or areas that contain methodology unique to the materials reviewed or unique interpretations of professional standards or other guidance. The assessment of the provider's system, including the review and editorial process, update and revision procedures, etc. should also factor into the reviewer's judgment. The reviewer's considerations for determining the extent of testing necessary for the materials or aids should be documented in the risk assessment. In addition, the QCM review working papers should document the actual testing or review procedures performed for each aid.

169-1175-1 *Question*—Paragraph ~~169.175~~ of the standards discusses the objectives of peer reviewers performing peer reviews of quality control materials (QCM), including references to "reliable aids." QCM review team's assessment of whether or not the materials are reliable aids by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate. What constitutes "reliable aids"? What other information is available to further explain these considerations?

Interpretation— Many firms place a high degree of reliance on QCM, based on the nature and use of such materials. ~~There is an implied high degree of reliance by firms on QCM.~~ Because of this reliance, ~~including the~~ there are expectations that the materials are stand-alone aids, and use of the materials as designed, by a professional with an appropriate level of experience and expertise, ~~will result in~~ provides reasonable assurance of assisting users in performing an audit or attest engagements ~~performed in~~ accordance with professional standards. Accordingly, the QCM review team should assess and document how the materials address each of these considerations in order to be reliable aids:

~~should include a sufficient level of instructions and explanatory guidance to be considered reliable aids.~~

~~a.~~—Instructions should include (but are not limited to) the aid's applicability for different firms or clients (e.g., based on size, industry or engagement complexity, levels of experience or knowledge, etc.), a reminder for the need to tailor the materials as appropriate, and use of professional judgment in the application of the materials based on the facts and circumstances of each engagement. The instructions should also address SAS 103 documentation considerations, and specifically discuss whether completion of the aids will assist users with fulfilling SAS 103 requirements.

~~a.~~ _____

~~b.~~—Guidance should be sufficient and technically accurate to assist users with conforming with the components that are integral to the professional standards that the materials purport to

~~encompass conforming to the professional standards that the aids purport to encompass, regardless of whether such standards are encompassed explicitly or implicitly. Explanatory guidance ranges from specific cross-references to professional standards or directly quoting the standards, to explanations of the standards or integrating the verbiage of the standards into audit checklists or programs. QCM limited to audit program steps without explanatory guidance or specific reference to applicable professional standards would be considered insufficient, and do not constitute reliable aids. In addition, materials that are industry-specific should appropriately address the relevant professional standards and industry guidance from a completeness standpoint (e.g. an aid that purports to assist users with performing risk assessment procedures for an ERISA engagement should include SAS 107 considerations tailored to the industry; the reviewer should question if SAS 107 considerations are omitted).~~

~~b.~~

~~e.~~ Methodology inherent in the materials (if applicable), including the provider's stance on the application of professional standards or alternative procedures, should be evaluated to determine if methodology provides reasonable assurance to users of performing an engagement performed in conformity with the components which are integral to the applicable professional standards the materials purport to encompass. This is especially important when the methodology addresses the treatment of unique transactions or accounts, contains unique interpretations of professional standards, incorporates elements of widely recognized and accepted industry practice where higher levels of guidance are not available, or suggests departures from professional standards in certain circumstances.

~~d.c.~~

Reviewers should refer to section 3100 *Supplemental Guidance* for additional illustrative guidance for reliable aids.

~~QCM may be tailored to practitioners whose clients do not engage in complex transactions or accounting issues. Accordingly, there may be areas or topics that are not covered by the QCM, which by default makes guidance for those areas unnecessary (e.g., derivative activities or hedge transactions). In such cases, the instructions should alert the user that those areas are not covered by the materials, and instruct the practitioner to refer to professional standards or other guidance material in the event such transactions are encountered.~~

~~Peer reviewers of QCM are expected to evaluate the aids and determine whether they contain an appropriate level of instruction and guidance. Aids either lacking or containing an insufficient level of instructions and/or guidance, or that contain inappropriate methodology, should be further evaluated by the review team to determine if the aids are reliable. The review team should also evaluate the impact on the provider's ~~indicate a deficiency in the system of quality control for the development and maintenance of the aids (and in some cases an indication of a significant deficiency).~~ If an aid is deemed to not be a reliable aid, This this should be reflected in a peer review report with a rating of *pass with deficiencies* or *fail*, respectively, for the QCM depending on the underlying cause of the issue.~~

Note that the intent of QCM is to assist in providing firms and practitioners with reasonable assurance of complying with professional standards as a part of their overall system of quality control. The peer

independent review of such materials does not provide firms or practitioners with absolute assurance of compliance solely through reliance on the materials, nor is it intended to.

~~169-2 Question—Is there more guidance regarding the extent of guidance that would customarily be present for QCM to constitute reliable aids?~~

~~Interpretation—Peer reviewers should refer to illustrative guidance on QCM included in section 3100 Supplemental Guidance.~~

199-1 Question—Paragraph .199 of the standards states that if a provider refuses to cooperate during the course of a QCM review or if a provider receives a report rating other than *pass*, the provider firm's independence with respect to user firms may be impaired. Under what circumstances would the provider's independence with respect to user firms be impaired due to non-cooperation?

Interpretation—If the required QCM review documents are not submitted by the due date due to the provider's non-cooperation, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed (see Interpretation 25-2).

Once all of the required QCM review documents have been submitted timely but before the report has been accepted, the National PRC may make whatever inquiries or initiate whatever actions of the provider or the review team it considers necessary under the circumstances. The National PRC will set a date by which responses to inquiries and evidence of completion of required actions must be received. If, as a result of non-cooperation by the provider, inquiries and/ or required actions remain unresolved as of the due date established by the National PRC, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed.

199-2 Question—Under what circumstances would the provider's independence with respect to user firms be impaired due to receiving a report rating other than *pass*?

Interpretation—If the provider receives a report with a rating of *pass with deficiencies*, then the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms starting on the date that the QCM review is submitted. After accepting the report, the National PRC will identify a corrective action which will be communicated to the provider. While the corrective action falls outside of the reporting and acceptance process for reviews of QCM, it affords the provider an opportunity to maintain their independence with respect to users by remediating the deficiency identified in the report. The National PRC will set a date by which evidence of completion of the corrective action should be received. If evidence of completion of the corrective action is submitted by the date set by the National PRC, upon acceptance of the corrective action by the National PRC the provider's independence with respect to user firms will no longer be impaired. If evidence of completion of the corrective action is not submitted by the date set by the National PRC, the provider's independence with respect to user firms will be impaired until the completion of the provider's subsequent QCM review.

If the provider receives a report with a rating of *fail*, then the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer

reviews of user firms starting on the date the QCM review is submitted. The provider's independence with respect to user firms will remain impaired until the completion of the provider's next QCM review.