White Paper

Changes to the
AICPA STANDARDS FOR PERFORMING
AND REPORTING ON PEER REVIEWS and
Related INTERPRETATIONS
Based on the June 1, 2010 Exposure Draft
(QCM & CPE REVIEWS)

Effective for QCM and Peer Reviews Commencing on or After January 1, 2012

August 15, 2011
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NOTICE TO READERS

The purpose of this white paper is to assist you in understanding the revisions made to the AICPA Standards for Performing and Reporting on Peer Reviews and related Interpretations (collectively, Standards), which mainly address the peer review independence concerns related to reviewers that are involved in the development and/or maintenance of quality control materials. These revisions are effective for QCM and peer reviews commencing on or after January 1, 2012. This paper provides a bridge between the key changes proposed in the June 1, 2010 exposure draft and the final changes made (included as Attachment A).

This paper also provides background and other pertinent information about feedback received by the AICPA Peer Review Board (Board) from respondents to the June 1, 2010 exposure draft, explains the consideration given to that feedback by the Board, and describes the rationale behind the Board’s adoption of the final changes to the Standards.

The Board always welcomes feedback and dialogue; however, this document is not an exposure draft.

Those reading and relying on this paper should already be knowledgeable about the current Standards and other guidance issued by the Board related to the application of the changes.
The Peer Review Board ("Board") recently approved several changes to the *Standards for Performing and Reporting on Peer Reviews* and related *Interpretations* (collectively "Standards") based upon the feedback received on the June 1, 2010 exposure draft. The June 1, 2010 exposure draft focused on the section of the Standards for performing and reporting on QCM and CPE Program reviews, and addressed the ability of individuals involved in the development and/or maintenance of QCM or CPE programs to peer review firms that use those materials as an integral part of their systems of quality control. The Board developed the finalized changes explained below to address those independence concerns raised in the exposure draft and be responsive to the feedback received.

**Comparison of Key Changes**

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<th>1/1/2012 Standards</th>
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<td>1. Requires triennial reviews of the system to develop and maintain QCM, and the resultant aids, as an independence remedy when a provider firm (or a firm affiliated with a provider) wants to peer review a user firm that integrally relies on the materials. (Paragraphs .159 - .161, .163) Requires provider firms that want to peer review user firms to have their own firm’s review administered by the National PRC. (Paragraph 162, Interpretation 11-1) Removes the requirement for provider associations to undergo triennial reviews. Associations can...</td>
<td>1. Removes the requirement for triennial reviews, and makes reviews of both QCM and CPE programs voluntary.</td>
<td>1. Requires triennial reviews of the system to develop and maintain QCM and/or CPE programs, and the resultant aids, as an independence remedy when a provider firm wants to peer review a user firm, or when a provider association wants to form review team or have firm-on-firm reviews within the association.</td>
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| voluntarily undergo such reviews.  
(Interpretation 26-1) |   |   |
| 2. Addresses the independence of review team members when they were involved in the development and/or maintenance of the materials, report to those directly involved in the development and/or maintenance of the material, or receive more than a de minimus amount of the revenues or other monies generated by the marketing and sale of the materials.  
(Interpretation 21-1-c) | 2. Impairs the independence of all personnel within a provider firm to perform peer reviews of user firms. | 2. Requires triennial reviews of the system to develop and maintain QCM and/or CPE programs, and the resultant aids, as an independence remedy when a provider firm wants to peer review a user firm, or when a provider association wants to form review team or have firm-on-firm reviews within the association. |
| 3. Revises the QCM report and the Representation Letter to call attention to the user firm’s responsibility to use and modify the materials appropriately.  
(Paragraph 175, Appendix R; Appendix B) | 3. Not addressed. | 3. Not addressed. |
| 4. Entirely removes reviews of CPE programs from the Standards, including the June 2010 proposed procedures for | 4. Provides new procedures for performing reviews of CPE programs. Revises the opinion for CPE program reviews such that it only | 4. Requires triennial reviews of the system to develop and maintain QCM and/or CPE programs, and the |
5. Provides principles-based guidance for determining when independence impairments may exist based on the significance of a reviewer or reviewing firm’s contributions to the development and/or maintenance of QCM or CPE programs that are integral to the user firm.

5. Impairs the independence of all personnel within a provider firm to perform peer reviews of user firms.

5. Uses the concept of “integral” when considering whether a peer review is required to cure an independence impairment.

Background
On June 1, 2010, the Board issued an exposure draft that proposed three key revisions to the Standards:

1. Revisions and clarifications of the guidance for those involved in the development and maintenance of quality control materials (QCM) or CPE programs such that they are not permitted to serve on review teams to peer review firms that use those QCM or CPE programs (user firms). The proposed changes would have impacted firms that develop and maintain QCM or CPE programs (provider firms) as well as associations of CPA firms that develop and maintain QCM or CPE programs (provider association). These changes were proposed to address the perceived conflict of interest that any person involved in the development or maintenance of a provider’s QCM or CPE programs has with respect
to user firms, and the pressure that such interest places on peer review independence and objectivity. This was the primary focus of the exposure draft.

The proposed changes attempted to conform the guidance to the underlying intent of paragraphs 21 – 22 of the Standards. The proposed revisions would have precluded any personnel from a provider firm from participating on the review team of a firm that uses QCM or CPE programs that provider firm developed, regardless of whether the review team is formed by a different reviewing firm or by an association (association formed review team). In addition, the proposed revisions would have precluded any personnel from an association member firm that participated in the development or maintenance of the association’s QCM or CPE programs from serving on the review team of a firm that uses the association’s QCM or CPE programs, regardless of whether the review team is formed by a different reviewing firm or by the association. Further, under the proposed changes CPA owners of a provider (whether a firm or another entity) that are also peer reviewers could not participate on the review team of a user firm.

2. As a result of the proposed revisions and clarifications above, the exposure draft also recommended removal of the provision requiring providers to undergo a triennial peer review of the system to develop and maintain QCM or CPE programs, and the resultant materials. The proposed changes gave providers the voluntary option to undergo such a review.

3. Lastly, the exposure draft proposed revisions to the procedures for performing a CPE program review for those providers that elect to undergo such a review. The proposed changes shifted the CPE program report opinion (and the review procedures) to the system to produce such materials, instead of the current focus on both the system and the resultant aids.

For additional information on the changes proposed in the June 1, 2010 exposure draft (including the full explanatory memorandum), please access the exposure draft here.

The Feedback Process
The Board solicited feedback on the proposed changes above through comment letters, surveys, and discussions with several peer review stakeholders during the summer of 2010. Two major trends emerged from the feedback received:

1. Disagreement among respondents over the broadness of the proposed independence remedies for those peer reviewing firms that also develop and maintain QCM.

Respondents agreed with the proposed revisions to safeguard the independence of peer reviewing firms, expressed that the proposed revisions went too far, or expressed that the proposed revisions did not go far enough. Some of the feedback requested further clarification of the point at which a provider firm’s independence would become impaired with respect to user firms (for example, establishing a “bright-line” for when an
independence impairment would occur). Of those respondents expressing that the proposed revisions went too far, most recommended that the independence impairment should be at the level of the individual, and not the firm. Many suggested that an individual reviewer’s extent of involvement, level of effort, role, and materiality of QCM-related compensation should factor into independence impairment considerations. Other respondents expressed that the current independence remedy of reviewing the system to develop and maintain QCM and the resultant materials was sufficient and needed no modification or addition.

II. Differentiating the independence concerns for those individuals and/or firms that develop and maintain CPE programs from those that develop and maintain QCM.

The respondents drew a clear line between the independence concerns related to providers of QCM and providers of CPE programs. The majority of respondents communicated that the Board should apply the remedies for independence impairments to developers of QCM, and not to developers and/or presenters of CPE programs. Those respondents expressed that the burden of responsibility lies with the firms, who determine how to apply the information it obtains via CPE programs, and implementing that information into its system of quality control. There was also concern that peer reviewers hired by state societies or the AICPA as CPE developers/presenters would have independence impairments with respect to attendee firms.

**Determining a New Approach**

Over the course of several meetings, the QCM & CPE and Standards Task Forces carefully analyzed and considered all of the comment letters, surveys, etc. These task forces recommended several feedback-based revisions to the direction set forth in the exposure draft. The task forces provided these recommendations and related additional changes to the *Standards* to the Board for further vetting and confirmation. This process resulted in the changes explained below.

**QCM Independence Safeguards**

As mentioned above, a main point of dissension in the comment letters and other feedback received was the best way to address the independence concerns between provider firms and user firms. This point was deliberated over the course of several meetings. Ultimately, the Board determined that implementing independence safeguards instead of strict prohibition was the most appropriate course of action. In developing the current approach, the task forces relied upon the concepts of the “covered persons” guidance in ET 101-1 (as suggested by respondents).

Under this new approach, a provider firm is required to undergo a QCM review before it can perform a user firm’s peer review. However, any individuals involved in the development and/or maintenance of the QCM, those directly reporting to those involved in the development
and/or maintenance of the QCM, and those that receive more than a de minimus amount of the revenues generated by the sale or marketing of the QCM are prohibited from being on the review team. This guidance is applicable regardless of whether the individuals participating in the development and/or maintenance of the QCM are from a provider firm or a firm affiliated with or related to a provider.

The administration of QCM reviews will remain with the National PRC. Further, since provider firms arguably have inter-related systems of quality control for the firm and for the development and maintenance of QCM, the National PRC will mandatorily administer the provider firm’s own peer review. Provider firms can elect to combine the two types of reviews for efficiency.

Associations are no longer required to undergo any type of review in order to permit member firms to peer review each other, as originally proposed in the exposure draft. However, the guidance in the preceding paragraph also applies to any personnel from firms that are involved in the association’s system to develop and maintain QCM (if applicable).

The Board concluded that this approach fairly ensures that independence and objectivity between peer reviewers and reviewed firms are preserved.

Changes to the QCM Report Language

While one purpose of the QCM review is determining whether the materials are reliable aids, the responsibility to use and/or modify the materials in an appropriate manner to yield the desired results (engagements performed in accordance with professional standards and/or regulatory requirements in all material respects) lies with the user firm. Several respondents emphasized this point in their feedback. In order to clarify the user firm’s responsibility, the Board modified the QCM report language to note the users’ responsibilities, and potential limitations of the QCM opined on. In addition, the representations letter now has an additional representation addressing the firm’s incorporation of QCM into its system of quality control.

Removal of CPE Program Reviews

Several respondents expressed a lack of understanding of the need for CPE reviews. While other respondents did not question the need for these types of reviews, they did question whether there was an independence threat with respect to the development and/or maintenance of CPE programs that created a need for additional procedures or guidance. The Board considered this feedback, as well as several additional key points:
• The changes to the guidance discussed above removes the requirement for associations to undergo any type of review in order to allow member firms to peer review each other, or to allow the association to form review teams. In recent history, only associations have obtained CPE reviews.

• Most state societies and boards of accountancy have various rules and procedures in place to approve and/or accept CPE program providers within their respective jurisdictions.

• An opinion on the system to develop and maintain CPE programs does not include any evaluation of the presentation of the materials, which is the most critical part of the CPE program.

Based on the above considerations, the Board determined there was no need for the Standards to offer this type of review, or require responsibility to oversee the conduct of such reviews.

_CPE Provider Independence Safeguards_

Several comment letters requested further clarification in this area. The Board considered this feedback but concluded that it cannot establish rules and “bright-line” guidance to address every situation, and such guidance would be inconsistent with principles-based Standards. However, the Board did develop interpretations to aid reviewers and firms in determining whether there are independence concerns on a case-by-case basis. The guidance includes several considerations for reviewers and firms when performing this assessment.

_Other Changes_

1. Refining the definition of QCM in the Standards
   The _Standards_ previously included personnel manuals, inspection checklists, hiring forms, etc. in the definition of QCM. The Board removed these types of materials from the definition in order to maintain the focus on engagement performance aids.

2. Defining due dates for QCM reviews
   The _Standards_ previously referred to the guidance for performing regular firm System and Engagement reviews to address areas such as review due dates. However, since failing to have a QCM review by the due date would not result in the termination of a provider firm’s enrollment in peer review, the Board determined that it was necessary to have separate guidance addressing QCM review due dates (to avoid confusion).
3. Conforming changes to Appendix A
   The section of Appendix A that discusses QCM and CPE Programs was revised to remove the references to CPE program reviews and refine the explanation and intent of QCM reviews, how they are performed, the scope of QCM reviews, etc. based on the changes explained above.

4. New Interpretations
   The Board approved several new interpretations providing examples and important considerations for making principles-based assessments of potential independence impairments.

5. Formatting Changes
   In order to improve the organization of the guidance, some paragraphs were moved and renumbered.

August 22, 2011 Exposure Draft
The Board received feedback from QCM reviewers and the National PRC that the Standards did not provide sufficient guidance for planning and performing QCM reviews. As additional guidance focusing on procedural aspects of the performance of QCM reviews was unrelated to the nature of the changes proposed in the June 1, 2010 exposure draft, the Board determined that it was necessary to issue a second, unrelated exposure draft. These new proposed changes focus on the planning and performance of QCM reviews, but also address peer reviewer qualification, QCM provider and reviewer cooperation, and publicizing QCM review information. Once posted, you can access the exposure draft in the Peer Review section of the Exposure Draft page of AICPA.org.

How to Learn More
Your input greatly enhanced the development of these final revisions. While these changes are final and comments are no longer being solicited, you are welcome to share any thoughts or suggestions on the final changes described in this white paper by sending an email to prptechnical@aicpa.org or calling 919-402-4502 and asking to speak with a technical manager. Thank you for your interest in peer review.
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Performing and Reporting on Reviews of Quality Control Materials (QCM)

Introduction

.154 Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm’s system of quality control. Such materials provide guidance to assist firms in performing and reporting in conformity with professional standards and may include, but are not limited to, such items as engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams.

.155 Organizations (hereinafter referred to as providers) may sell or otherwise distribute to CPA firms (hereinafter referred to as user firms) QCM that they have developed.

.156 Providers may elect voluntarily or be required to have an independent review of their system of quality control for the development and maintenance of the QCM they have developed, and of the resultant materials (see paragraph 159). The reasons for having such a review include but are not limited to:

   a. Providing reasonable assurance to user firms that the provider’s system of quality control to develop and maintain QCM is appropriately designed and complied with, and that the resultant materials are reliable aids to assist them in conforming with all those components which are integral to the professional standards the materials purport to encompass.

   b. Providing more cost-effective peer reviews for firms that use such materials by allowing the peer reviewers of user firms to place reliance on the results of the QCM review in evaluating the design of the user firm’s system of quality control.

   c. Ensuring that independence and objectivity on peer reviews of user firms is maintained when such peer reviews are performed by providers.

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

Objectives of a QCM Review

.158 The objectives of a review of QCM developed by a provider are determining:
a. Whether the provider’s system for the development and maintenance of the QCM was suitably designed and was being complied with during the year under review to provide user firms with reasonable assurance that the materials are reliable aids.

b. Whether the resultant materials are reliable aids to assist user firms in conforming with all those components which are integral to the professional standards the materials purport to encompass.

Applicability

.159 Generally, there are two categories of providers:

a. A CPA firm and/or its affiliate or related entity (see interpretations) that develops and maintains QCM (collectively, a provider firm). A provider firm is ordinarily permitted to perform the peer review of a user firm if an independent review of both the provider firm’s system of quality control for the development and maintenance of the QCM and the provider firm’s resultant materials (the QCM review) is performed as a safeguard of independence.

b. Any other type of organization that does not fall under the description of a provider firm (voluntary provider), including an association of CPA firms providing QCM or a third party organization that provides QCM as a primary function of its business.

All QCM reviews are administered by the National PRC and performed in accordance with these standards.

.160 With respect to a provider firm, the initial QCM review is due within six months of the elected year-end date. The initial QCM review is required to be completed before the provider firm can be scheduled to perform the peer review of a user firm. A provider firm’s subsequent QCM review has a due date of three years and six months from the year-end of the previous QCM review. The due date for a QCM review is the date by which the QCM review report, letter of response (if applicable), and the QCM reviewer’s working papers are to be submitted to the National PRC. If the QCM review working papers are not submitted by the due date, the provider firm will no longer be independent to perform peer reviews of user firms after that date (i.e. the necessary independence safeguard was not implemented timely, which is considered non-cooperation).

.161 Subsequent to the QCM review, if there are substantial changes in either the system for the development and maintenance of the materials or in the resultant materials themselves, the provider firm should consult with the National PRC to determine whether an accelerated QCM review is required.
In addition, a provider firm that will perform the peer review of a user firm is required to have its own firm’s subsequent peer reviews administered by the National PRC (from the point of scheduling the QCM review onward) (see interpretations).

Voluntary providers of QCM that elect (but are not required) to have a QCM review should consult with the National PRC. Reviews of providers that voluntarily elect to have a QCM review under these standards must comply with the standards in all respects.

Materials relating to audits of SEC issuers performed pursuant to the standards of the PCAOB are not within the scope of these standards.

The National PRC will administer reviews of QCM based on the standards and the RAB Handbook. Where not otherwise addressed in this section, QCM reviewers and providers should refer to the other sections of the Standards for Performing and Reporting on Peer Reviews for additional guidance on performing, reporting on, and accepting QCM reviews.

Qualifications for Serving as a QCM Reviewer

The National PRC establishes minimum requirements to qualify as a QCM reviewer. In addition to the peer reviewer qualifications set forth in the paragraphs under “Organizing the System or Engagement Review Team” and “Qualifying for Service as a Peer Reviewer” (see paragraphs 26–35) and in the interpretations, the National PRC will consider other factors in determining whether a potential QCM reviewer is qualified (see interpretations). Members of the QCM review team must be approved by the National PRC prior to the commencement of the review. Final approval of QCM review teams is at the National PRC’s discretion.

Procedures for Planning and Performing QCM Reviews

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

.170 A QCM or CPE review team should review the resultant materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids to assist firms in conforming to those professional standards the materials purport to encompass.

Reporting on QCM Reviews
General

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

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

.172 The following circumstances ordinarily would be considered deficiencies or significant deficiencies:

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

b. The provider’s system of quality control for the development and maintenance of QCM, as designed, did not provide reasonable assurance that reliable aids had been developed or maintained.

c. The degree of compliance with the provider’s system of quality control for the development and maintenance of QCM was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed or maintained.

d. The resultant QCM are not reliable aids to assist user firms in conforming with the components integral to the professional standards the materials purport to encompass (generally resulting from the condition described in b. and/or c.).

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

Preparing the Report in a QCM Review

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

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

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

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

d. State that the provider is responsible for designing and complying with a system of quality control that provides reasonable assurance that the materials are reliable aids to assist users in performing and reporting in conformity with the components which are integral to the professional standards that the materials purport to encompass.

e. State that the reviewer’s responsibility is to express an opinion on the design of the system of quality control, the provider’s compliance with that system, and the reliability of the resultant materials based on the review.

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

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

h. State that the users of the materials are responsible for implementing, tailoring, and augmenting the materials as appropriate.

i. State that there may be important elements of a quality control system in accordance with Statements on Quality Control Standards that are not part of the materials that have been subject to this QCM review.

j. Identify the different review ratings that the provider could receive.

k. In a report with a review rating of pass:
   - Express an opinion that the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids.
• Express an opinion that the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass as of year-end.

• State at the end of the opinion paragraph that therefore the report reflects a review rating of pass.

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

l. In a report with a review rating of pass with deficiencies:

• Express an opinion that, except for the deficiencies described above, the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids; and/or

• Express an opinion that, except for the deficiencies described above, the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass as of year-end.

• State at the end of the opinion paragraph that therefore the report reflects a review rating of pass with deficiencies.

m. In a report with a review rating of fail:

• Express an opinion that as a result of the significant deficiencies described above, the system of quality control for the development and maintenance of the quality control materials was not suitably designed and being complied with during the year ended, and therefore cannot provide reasonable assurance that the materials are reliable aids.

• Express an opinion that also, as a result of the significant deficiencies described above, the quality control materials are not reliable aids and do not assist users in conforming with the components which are integral to the professional standards the materials purport to encompass as of year-end.

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

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

o. Identify, for any deficiencies or significant deficiencies included in the report with a review rating of pass with deficiencies or fail any that were also made in the report issued on the provider’s previous QCM review.
Provider Responses on QCM Reviews

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

.177 The provider should submit a copy of the report and its letter of response to the National PRC by the provider’s review due date. Prior to submitting the response to the National PRC, the provider should submit the response to the team captain for review, evaluation, and comment. If the provider receives a report with a review rating of *pass*, a letter of response is not applicable, and the provider does not submit a copy of the report to the National PRC.

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

.179 If, after a discussion with the team captain, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact the National PRC for assistance in the matter (see paragraph 93). If the provider still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.
Appendix A
Summary of the Nature, Objectives, Scope, Limitations of, and Procedures
Performed in System and Engagement Reviews and Quality Control Materials Reviews (as
Referred to in a Peer Review or QCM Review Report) [excerpted]

Quality Control Materials Reviews

17. An organization (hereinafter referred to as provider) may sell or otherwise distribute quality
control materials (QCM) that they have developed to CPA firms (hereinafter referred to as user
firms). QCM may be all or part of a user firm’s documentation of their system of quality
control, and may include manuals, guides, programs, checklists, practice aids (forms and
questionnaires) and similar materials intended for use in conjunction with a user firm’s
accounting and auditing practice. User firms rely on QCM to assist them in performing and
reporting in conformity with the professional standards covered by the materials (as described
in the preceding paragraphs).

18. A QCM review is a study and appraisal by an independent evaluator (known as a QCM
reviewer) of a provider’s QCM as well as the provider’s system of quality control to develop and
maintain QCM (hereinafter referred to as provider’s system). The QCM reviewer’s objective is
to determine whether the provider’s system is designed and complied with and whether the
QCM produced by the provider are appropriate, so that user firms can rely on the QCM. The
scope of a QCM review only covers materials related to accounting and auditing engagements
under U.S. professional standards. The scope does not include SEC guidance, nor does it cover
materials for tax or consulting services.

19. To plan a QCM review, a QCM reviewer obtains an understanding of (1) the provider’s QCM,
including the industries and professional standards that they cover, and (2) the design of the
provider’s system, including the provider’s policies and procedures and how it ensures that
they are being complied with. The QCM reviewer assesses the risk levels implicit within
different aspects of the provider’s system and QCM. The QCM reviewer obtains this
understanding through inquiry of provider personnel, review of documentation on the
provider’s system, and review of the QCM.

20. Based on the QCM reviewer’s planning procedures, the reviewer looks at the provider’s
QCM, including the instructions, guidance, and methodology therein. The scope of a QCM
Review encompasses those QCM which the provider elects to include in the QCM review
report; QCM designed to aid user firms with tax or other non-attest services are outside of the
scope of this type of review. The QCM reviewer will also look at the provider’s system and will
test elements including but not limited to requirements regarding the qualifications of authors
and developers; procedures for ensuring that QCM are current; procedures for reviewing the
technical accuracy of the QCM; and procedures for soliciting feedback from users. The extent
of a provider’s policies and procedures and the manner in which they are implemented will
depend upon a variety of factors, such as the size and organizational structure of the provider
and the nature of the materials provided to users. Variance in individual performance and
professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible. The objectives of obtaining an understanding of the provider’s system and the QCM forms the basis for the QCM reviewer’s conclusions in the QCM review report.

21. When a provider receives a QCM Review report from an approved QCM reviewer with a review rating of pass, this means the provider’s system is designed and being complied with and the QCM produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials. If a provider receives a QCM review report with a review rating of pass with deficiencies, this means the provider’s system is designed and being complied with and the QCM produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials, except in certain situations that are explained in detail in the review report. When a provider receives a report with a review rating of fail, the QCM reviewer has determined that the provider’s system is not suitably designed or being complied or the QCM produced by the provider are not appropriate, and the reasons why are explained in detail in the report.

22. There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A QCM Review is based on the review of the provider’s system and QCM. It is directed at assessing whether the provider’s system is designed and complied with and whether the QCM produced by the provider are appropriate so that user firms have reasonable, not absolute, assurance that they can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials. Consequently, a QCM Review would not necessarily detect all weaknesses in the provider’s system, all instances of noncompliance with it, or all aspects of the QCM that should not be relied upon. Projection of any evaluation of a system or QCM to future periods is subject to the risk that the system or QCM may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.
Appendix B
Considerations and Illustrations of Firm Representations

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

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

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

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review. We have also provided a list of all engagements to the [team captain, review captain, or administering entity] with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the list included those engagements with report dates during the year under review. We have also provided the [team captain or review captain] with any other information requested, including communications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. In addition, there are no known restrictions or limitations on the firm’s or its personnel’s ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end. We understand the intended uses and limitations of the quality control materials we have adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist us in conforming with the Statements on Quality Control Standards and professional standards applicable to our accounting and auditing practice in all material respects. We have also discussed the content of our PCAOB inspection report with the [team captain or review captain] (if applicable).

Sincerely,

[Name of reviewed firm]
Appendix R
Illustration of a Report with a Review Rating of Pass in a Review of Quality Control Materials

Quality Control Materials Review Report

April 30, 20XX

Executive Board
XYZ Organization
and the National Peer Review Committee

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

Users of the materials are responsible for implementing, tailoring, and augmenting the materials as appropriate. There may be important elements of a quality control system in accordance with Statements on Quality Control Standards that are not part of the materials that have been subject to this review.

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

ABC & Co.1111

1111 The report should be signed in the name of the team captain’s firm for firm-on-firm reviews or association formed review teams.
Peer Reviews To Be Administered by the National Peer Review Committee

11-1  Question—Paragraphs .11.128, and .161 of the standards note that peer reviews intended to meet the requirements of the program should be carried out in conformity with the standards under the supervision of a state CPA society, group of state CPA societies, the National PRC, or other entity (hereinafter, administering entity) approved by the board to administer peer reviews. Under what circumstances are peer reviews administered by the National PRC? What other criteria relate to the firms previously enrolled in the Center for Public Company Audit Firms Peer Review Program (CPCAF PRP) and to that program’s peer reviewers?

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

   a. The firm is required to be registered with and inspected by the PCAOB.
   b. The firm performs audits of non-SEC issuers pursuant to the standards of the PCAOB.
   c. The firm is a provider of QCM (or affiliated with a provider of QCM) that are used by firms in peer reviews.

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

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

Independence, Integrity, and Objectivity

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

   Interpretation—c. Relationships With the Reviewed Firm [excerpted]
   Reviewing firms should consider any family or other relationships between the management at organizational and functional levels of the reviewing firm, affiliate relationships, alternative practice structures, and common ownership of entities that provide products or services and the firm to be reviewed, and should assess the possibility of an impairment of independence. For peer review purposes (including QCM reviews), entities that are affiliated to, are a part of an alternative practice structure with, or share common ownership with a reviewing firm are
considered to be a part of the reviewing firm when assessing the independence of the reviewing firm.

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

If arrangements exist between the reviewed firm and the reviewing firm (and any of its affiliates or related entities) or the firm of any member of the review team whereby expenses, office facilities, or personnel are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, extensive consultation, or preissuance reviews of financial statements and reports. In such circumstances, the firms involved are sharing services that are an integral part of their systems of quality control.

If the reviewing firm has provided or sold quality control materials to the reviewed firm (such as manuals, guides, checklists, practice aids, etc.) independence for the purposes of this program is impaired. However, the impairment would be removed if an independent review of the quality control materials was performed and submitted to the National PRC before the commencement of the reviewed firm’s peer review (see paragraphs 159 and 160, and Interpretation 199-1). In addition, whether or not an independent review of the quality control materials was performed, the review team members cannot be directly involved in the development and/or maintenance of the provider firm’s materials, report to those that were directly responsible for the development and/or maintenance of the materials, or receive more than a de minimus amount of revenues or other monies generated by the sale of the materials.

21-7  Question—Firm A is engaged to perform the peer review of Firm B. Firm B’s staff attends CPE programs developed by Firm A. Can Firm A perform a peer review of Firm B?

Interpretation—Yes, as long as Firm A has not effectively become a part of Firm B’s system of quality control. If Firm A (or any affiliates of or entities related to Firm A) develops and customizes CPE specifically to Firm B’s needs, both firms would need to assess the extent and degree of customization to determine whether Firm A has become a part of Firm B’s system of quality control, or had a significant enough impact on that system such that Firm A’s independence would be impaired. Factors to consider include the degree of customization, the significance of the programs to Firm B’s system of quality control, whether Firm A was involved in determining the type of CPE programs that Firm B needs, etc. Based on the factors considered, if the nature of Firm A’s relationship with Firm B effectively makes Firm A a part of Firm B’s system of quality control, Firm A’s independence is impaired for the first peer review immediately subsequent to the training provided.

For example, if Firm A developed and presented CPE programs and training for Firm B that were customized to Firm B’s practice, including using some of Firm B’s engagements as examples and
learning tools, Firm A’s independence is impaired for the first peer review immediately
subsequent to the training provided. However, Firm A would be permitted to perform any
successive peer reviews.

This assessment should be made by both firms prior to the commencement of the peer review.
Firm B should consult with the administering entity if needed.

21-9  *Question*—Firm B uses Firm A’s internally-developed accounting and auditing manual as
its primary reference source. Can Firm A perform a peer review of Firm B, or can Firm B
perform a peer review of Firm A?

*Interpretation*—No, unless Firm A has had a QCM review performed that covers its accounting
and auditing manual and any other of its reference material used by Firm B as a primary
reference source (see “Performing and Reporting on Reviews of Quality Control Materials
(QCM)” in the standards). This is also applicable if the manual is developed by an affiliate of Firm
A, or any other entity related to Firm A. If this is Firm A’s initial QCM review, then Firm A is not
independent to perform the peer review of Firm B until the QCM review is accepted. For all
subsequent QCM reviews, Firm A will remain independent with respect to Firm B as long as the
QCM review is submitted by the due date. If Firm A elects not to have a QCM review performed
before Firm B’s peer review commences, Firm A would not be considered independent for
purposes of conducting the peer review. In all circumstances, the review team members cannot
be directly involved in the development and/or maintenance of Firm A’s accounting and
auditing manual, report to those that were directly responsible for the development and/or
maintenance of the manual, or receive more than a de minimus amount of fees or other
monies from the total revenues generated by the sale of the manual.

21-20  *Question*—Firm A purchases an accounting and auditing manual developed by
an association that it belongs to as its primary reference source. Personnel from Firm B that are
also peer reviewers aided the association with the development of the manual by authoring
significant sections of the manual. The association receives annual approval to form review
teams for its member firms. Can the association include reviewers from Firm B on the review
team to peer review Firm A?

*Interpretation*—Yes, as long as the following personnel from Firm B are not included on the
review team: personnel directly involved in the development and/or maintenance of the
association’s accounting and auditing manual (i.e. those that authored sections of the manual),
report to those that were directly responsible for the development and/or maintenance of the
manual, or receive more than a de minimus amount of fees or other monies from the total
revenues generated by the sale of the manual that aided the association with the development
of the manual are not included on the review team.

21-21  *Question*—ABC, Inc. (an affiliate of Firm A) is a provider of audit manuals and
guides for various industries. Firm B purchases an industry-specific audit manual from ABC, Inc.
to assist with performing audit engagements for a niche industry. The niche industry represents
an insignificant portion of Firm B’s overall audit and attest practice. Firm B does not purchase any other practice aids or manuals from ABC, Inc. Can Firm A perform the peer review of Firm B?

**Interpretation**—Yes, unless either the niche industry grows to become a more significant part of the firm’s overall practice and the same audit manual is used, or the niche industry is a must select industry. If either occurs, then the industry manual would be assessed as being integral to Firm B’s system of quality control, and Firm A’s independence would be impaired (see Interpretations 21-1c and 159-1 for additional information on affiliate relationships). If ABC, Inc. had the relevant audit manual undergo an independent QCM review in compliance with the standards, Firm A’s independence would not be impaired. However, any reviewers from Firm A that participated in the development and/or maintenance of ABC, Inc.’s materials, report to those that were directly responsible for the development and/or maintenance of the materials, or receive more than a de minimus amount of the revenues generated from the sale of the materials would not be independent of Firm B, and would not be approved as a part of the review team under any circumstances. This is applicable regardless of the nature of the materials purchased by Firm B, and includes audit programs, practice aids, etc.

If the nature of the audit manual or guide purchased and adopted is not integral to Firm B’s system of quality control, independence would not be impaired. Factors that should be considered in assessing whether or not the manual is an integral part of the system of quality control include the size of the impacted portion of the firm’s practice (by industry, level of service, engagement hours, etc), the risk associated with that portion of the firm’s practice (for example, must select industries), the degree of reliance placed on the manual, the significance of the guidance provided by the manual to the related engagements, etc.

**21-22 Question**—Reviewers from Firm A provide technical consultation to a third-party provider of QCM. The extent of the consultation entails reviewing portions of various guides for technical accuracy, and providing feedback (if any) to the provider. The reviewers have no control over whether their feedback is addressed or how it impacts the end products ultimately marketed as the guides. Firm B uses guides developed by the provider as an integral part of its system of quality control. Can Firm A perform the peer review of Firm B?

**Interpretation**—Yes, Firm A would be independent for purposes of conducting the peer review of Firm B. However, when reviewers provide consulting or other services to third party providers, they should assess whether their individual contributions were sufficiently significant to make them a part of the provider’s system. In this circumstance, the extent of the reviewers’ contributions does not make them a part of the provider’s system of quality control. Similarly, if the reviewers from Firm A authored or edited portions of a third-party provider’s guides or other materials, they should also assess the degree and impact of their contributions.

If the reviewers’ contributions went beyond simple consultation and entailed more formal technical review and approval procedures as a part of the development and maintenance process, or if the reviewers exercised control within the development and maintenance process
such that feedback and comments had to be addressed or incorporated into the materials, then the independence of Firm A is impaired. Firm A’s independence would also be impaired if the reviewers authored or edited substantial portions of the guides. In both of these scenarios, the reviewers’ contributions are significant to the provider’s development and maintenance process, such that the reviewers’ have effectively become a part of the provider’s system of quality control.

If the provider elected to have an independent QCM review, and the scope of the review included the materials technically reviewed, authored, etc. by the reviewers, then Firm A’s independence would no longer be impaired. However, the specific reviewers from Firm A that participated in the development and/or maintenance of the materials, report to those that were directly responsible for the development and/or maintenance of the materials, or receive more than a de minimus amount of the revenues generated from the sale of the materials would not be independent of Firm B.

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

**26-1 Question**—Paragraph .26 of the standards states that a review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or an association of CPA firms authorized by the board to assist its members in forming review teams (an association formed review team). What criteria have been established by the board for association formed review teams?

**Interpretation**—Associations of CPA firms include any group, affiliations, or alliances of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services. Firms and other entities in the association cooperate with one another to provide professional services.

A member firm of an association may conduct a peer review of another association-member firm enrolled in the program, provided that the association is not a network as defined by Interpretation 26-2 and the association receives annual approval from the board. The National PRC administers this process on behalf of the board. The association must submit an AIF to the National PRC that must be approved by the board prior to any aspect of the review being planned, scheduled, or performed.

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

The approval of the AIF specifically relates to AICPA members of an association having the ability to perform peer reviews of other AICPA members in the same association enrolled in the program. Furthermore:
a. Annual approval of the AIF does allow, where the association is not a network and has answered the specific questions making such a request, the association the ability to assist its members in the formation of review teams (association formed review teams) or to provide technical assistance to such review teams.

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

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

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

e. If the association makes any representations (in brochures, directories, pamphlets, Web pages, or any marketing or selling materials regarding its member firms in obtaining engagements), in order for the AIF to be approved such representations must be objective and quantifiable.

For a member firm of an association to conduct peer reviews of another association-member firm enrolled in the program, in addition to the independence requirements related to network firms appearing in Interpretation 26-2 and other peer review independence requirements, the association and its member firms must meet the following independence criteria:

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

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

c. Referral or participating work among member firms is arranged directly by the firms involved.
An association may voluntarily elect to have an independent QCM review of its system of quality control to develop and maintain quality control materials used by its member firms (see paragraphs .154-.179 of the standards). An association may wish to have such a review to enable its member firms that use the materials it develops to have more efficient peer reviews. Associations that elect to have this type of review should consult with AICPA program staff.

An association formed review team,

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

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

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

**Independent QCM Reviews**

**159-1 Question**—Paragraph .159 of the standards refers to an affiliate or related entity as considerations in determining whether the QCM review is required. What does an affiliate mean in this context, and how can an affiliate relationship lead to a required QCM review?

**Interpretation**—For QCM review purposes, a CPA firm has an affiliate relationship with another entity if the firm controls or has the power to control the other entity (or vice versa), if there is mutual ownership of the firm and the other entity, or if a third party controls or has the power to control both the firm and the other entity. If a CPA firm is affiliated with an entity that is a provider of quality control materials (QCM), and the CPA firm performs peer reviews of other firms, the CPA firm is considered a provider firm. The CPA firm’s independence will be impaired to perform peer reviews of firms that use the QCM sold by the affiliate, unless an independent review on the QCM is completed.

**161-1 Question**—The standards note that in the event of substantial changes in a provider’s system of quality control to develop and maintain materials, or substantial changes in the materials themselves, the provider should consult with the National PRC to determine whether an accelerated QCM review is warranted. What are factors that the National PRC will consider in making this determination?

**Interpretation**—The National PRC will consider the following (at a minimum) in determining whether the provider should have an accelerated review:
• The reasons for and types of changes in the system, the resultant materials, or both
• The period of time since the last QCM review
• The rating of the last QCM report

If the provider is a provider firm that performs peer reviews of user firms, and the provider firm’s system of quality control or the resultant materials underwent substantial changes, it may be necessary for the provider firm to have an accelerated QCM review in order to maintain independence with respect to user firms.

166-1 Question—Paragraph .166 of the standards indicates that the National PRC will consider other factors (in addition to the qualifications set forth in the paragraphs under “Organizing the System or Engagement Review Team” and “Qualifying for Service as a Peer Reviewer”) in determining whether a peer reviewer is appropriately qualified to perform a QCM peer review. What are the other considerations?

Interpretation—The National PRC, as the administering entity for QCM reviews, establishes the qualifications necessary to perform a QCM review. In addition to the peer reviewer qualifications set forth in paragraphs 26-35, reviewers of QCM must have relevant and current industry experience in their own firm. The National PRC will also consider the history and nature of reviewer feedback, AICPA or administering entity imposed peer reviewer restrictions, and other pertinent factors.

Subsequent to the approval of a QCM reviewer, situations may arise which causes the reviewer to no longer meet the qualifications for serving as a QCM reviewer. Such situations include (but are not limited to):

• Suspension or termination of AICPA membership
• Change in the status of the reviewer’s CPA license from active status
• Eligibility criteria to serve as a peer reviewer in paragraph .31 are no longer met
• Communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of the peer reviewer firm’s accounting and auditing practice, and/or notifications of limitations or restrictions on the peer reviewer’s firm’s right to practice.

It is the responsibility of the provider to ensure that review team members continue to meet the qualifications. Peer reviewers that have a conflict of interest with respect to the QCM under review will not be approved as a QCM review team member. Examples of individuals with conflicts of interest include someone who assisted in the materials’ development or maintenance process, uses the materials as an integral part of their firm’s system of quality control, or is an individual from a firm that is a member of the association whose materials are under review.