
EXPOSURE DRAFT

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

- **Allows Firms with No AICPA Members to Enroll in the AICPA Peer Review Program**
- **Expands the Availability of Administration by the National Peer Review Committee**
 - **Includes Other Minor Changes**

May 23, 2016

Comments are requested by August 26, 2016

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

**Comments should be received by August 26, 2016 and addressed to
Lisa Joseph, Technical Manager – Peer Review
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May 19, 2016

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

Written comments or suggestions on any aspect of this exposure draft will be appreciated and must meet the following criteria:

- Be received by August 19, 2016
- Should be sent to Lisa Joseph or PR_expdraft@aicpa.org
- Should refer to the specific paragraphs and include supporting reasons for each comment or suggestion
- Should be limited to those items presented in the exposure draft

The exposure draft includes the following:

- An explanatory memorandum of the proposed revisions to the *Standards* and Interpretations in effect as of May 19, 2016
- Explanations, background and other pertinent information
- Marked excerpts from the current *Standards* and Interpretations to allow the reader to see all changes
 - Items that are being deleted from the *Standards* and Interpretations are struck through
 - New items are underlined

The Board is not required to expose changes to the Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed revisions to the *Standards*. For each Interpretation change proposed, the corresponding *Standards* paragraph has been included in this document to further aid understanding.

As of May 19, 2016, there is another outstanding exposure draft proposing changes to the *Standards* and Interpretations. The details of that exposure draft are available at [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#). 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,

Anita M. Ford
Chair, AICPA Peer Review Board

AICPA Peer Review Board

Peer Review Board Members 2015 – 2016

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Explanatory Memorandum

Introduction

This memorandum provides background on the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes:

- Allow firms with no AICPA members to enroll in the AICPA Peer Review Program (Program);
- Expand the availability of administration by the National Peer Review Committee; and
- Include other minor changes.

This memorandum solicits input on the proposal from all interested parties.

Background

CPAs take pride in their long-standing commitment to excellence. That commitment includes continued vigilance in delivering accounting and auditing services and protecting the public interest.

In the current business environment, the rapid pace of change is driving complexity and that trend is not likely to abate. Increased complexity presents challenges to practitioners in public accounting as they strive to continually perform high-quality financial statement audits of private entities. To preserve their prominent and respected role in the business community, CPAs must, and will, meet and overcome these challenges.

The Program monitors the quality of firms' accounting and auditing engagements and evaluates the systems under which those engagements are performed. Participation in the Program is mandatory for AICPA membership if a firm's practice includes services that fall within the scope of the Program. In addition, peer review is now required for licensure in nearly all states.

Much has changed over the 35 years that the Program has been in existence, including the complexity of business, the volume and intricacy of standards and the expectations of financial reporting stakeholders. At the same time, recent technological innovations afford the profession the opportunity to make dramatic upgrades to peer review that will enable adaptation to an ever-changing environment.

The goal for the next generation of peer review is a practice monitoring program focused on continual improvement and a commitment to quality in a changing world. Recognizing that many enhancements can and should be made to the existing Program as Practice Monitoring of the Future is being developed, the Board approved a plan in early 2014 to implement substantive changes to the current peer review process.

The near-term changes in peer review are part of the AICPA's Enhancing Audit Quality (EAQ) initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

Peer review is an integral element of the AICPA's EAQ initiative. This exposure draft is being issued by the Board to further the EAQ efforts to move the audit quality needle in a positive way. The Board has and will continue to enact near and long-term changes to the Program and its *Standards* and Guidance as part of this initiative, including additional Exposure Drafts, as necessary.

Enrollment in the AICPA Peer Review Program

Historically, Program enrollment has been limited to firms with an AICPA member partner. However, the AICPA has allowed entities fully involved in the administration of the Program to use the *Standards* and related guidance to administer state CPA society peer review programs for firms without an AICPA member partner in order to address licensing requirements for those firms. As almost all state boards of accountancy now require peer review for licensed firms, this has led to the development of approximately forty separate state CPA society peer review programs.

Consequently, almost all entities administering the Program are running two peer review programs using the same *Standards*. In total, approximately 34,000 peer reviews are administered over every three-year period. Administering dual programs is burdensome, resulting in an inefficient use of resources. The dual programs also cause confusion because, while it is not widely recognized, the state CPA society programs are not a part of the Program. Therefore, they are not included in the AICPA's oversight or fair procedures processes. While this difference in the peer review programs is likely unnoticeable to the public, it is important. Expanding the Program's enrollment eligibility will increase consistency, efficiency and effectiveness in the performance and administration of peer reviews. Furthermore, it expands the effect of important initiatives such as EAQ and Practice Monitoring of the Future.

Expanding the Availability of Administration by the National Peer Review Committee

Administration of the Program by the National Peer Review Committee has only been available to firms with an AICPA member partner since that is currently a requirement of enrollment in the Program. Removing the AICPA member partner requirement for enrollment in the Program creates the possibility for firms with no AICPA members to have their peer reviews administered by the National Peer Review Committee (National PRC). Expanding the availability of administration by the National PRC will promote further consistency.

Clarification of Qualifications

The *Standards* currently require that peer reviewers in the Program be members of the AICPA in good standing (that is, AICPA membership in active, non-suspended status). Consistent with that requirement and to provide further clarity, the proposal specifies that, in addition to peer reviewers, all peer review committee members, Report Acceptance Body (RAB) members, national RAB consultants and technical reviewers must be AICPA members in good standing.

Explanation of Proposed Changes

Revisions to *Standards*

The proposed changes include revisions to:

- Notice to Readers to indicate that the AICPA Peer Review Program may not be administered by any entity without written permission from the AICPA Peer Review Board.
- Paragraph .01 to clarify usage of term “program”.
- Paragraph .02 to expand and clarify the program’s goal to enhance accounting and audit quality.
- Paragraph .03 to consistently use “engagements not subject to PCAOB permanent inspection” as opposed to “non-Securities and Exchange Commission (SEC) issuers”.
- Paragraph .05 to clarify usage of term “board”, clarify that cooperation includes payment of administrative fees, and expand requirement for peer review to all enrolled firms.
- Paragraph .06 to consistently use “engagements not subject to PCAOB permanent inspection” as opposed to “non-Securities and Exchange Commission (SEC) issuers”.
- Paragraph .09 to note applicability of loss of individual membership as a possible ramification of noncooperation.
- Paragraph .11 to include all board committees, including the National PRC.
- Paragraph .128 to include all board committees, including the National PRC.
- Paragraph .129 to clarify that jurisdictions not administering the program request an entity to do so.
- Paragraph .131 to make requests for approval of alternate compliance methods with the *Standards*, Interpretations, and other guidance more principles-based.
- Paragraph .145 to add an appeal mechanism for hearing panels of firms without AICPA members.
- Paragraph .206 to remove permitting early implementation.
- Paragraph .207 to expand the applicability of goals of practice monitoring to all enrolled firms, expand the goal to enhance accounting and audit quality, and to effect consistency with regard to usage of “engagements not subject to PCAOB permanent inspection” as opposed to “non-Securities and Exchange Commission (SEC) issuers”.

Revisions to Interpretations

The proposal includes revisions to:

- Notice to Readers to remove applicability to only AICPA members.
- Interpretation 1-1 to indicate that firms without AICPA members may enroll in the Program.
- Interpretation 1-2 to include all committees of the board, including the National PRC, and indicate that firms without AICPA members may enroll in the Program.
- Interpretation 1-4 remove requirement that one owner of the firm be a member of the AICPA and to refer to firms without AICPA members consistently.
- Interpretation 3-1 to allow firm without AICPA member CPAs to enroll individually if they meet criteria.
- Interpretation 3-5 to expand fair procedures established by the board to include individuals enrolled in the program.
- Interpretation 5h-1 to provide appeal rights under fair procedures to firms without AICPA members pursuant to fair procedures established by the board and note limited applicability to ramification of referral to AICPA Professional Ethics Division.
- Interpretation 11-1 to include all committees of the board, including the National PRC, and remove requirement that one owner of the firm be an AICPA member for administration by the National Peer Review Committee.
- Interpretation 13-1 to clarify impact of peer reviews conducted under the auspices of another peer review program by an administering entity not approved by the board and indicate timing of peer reviews for firms previously enrolled in other programs.
- Interpretation 21-20 to update time periods in example.
- Interpretation 25-1 to expand document retention policy for those firms appealing through Joint Trial Board to apply to all firms appealing through fair procedures established by the board.
- Interpretation 26-1 to expand to firms without AICPA members, clarify that Board approval of the Association Information Form does not mean approval or endorsement of any other peer review programs conducted or administered by that association, and to further clarify the statement that representations contained in marketing by association must be objective and quantifiable.
- Interpretation 31b-1 to remove references to CPCAF PRP.
- Interpretation 31b-4 to remove references to CPCAF PRP.
- Interpretation 34-2 to note applicability of AICPA Code of Professional Conduct.
- Interpretation 59-3 to expand guidance related to foreign offices to include all enrolled firms.
- Interpretation 132-1 to specify that all peer review committee members, RAB members, national RAB consultants, and technical reviewers must be AICPA members.

Comment Period

The comment period for this exposure draft ends on August 19, 2016.

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 August 19, 2016, for a period of one year.

Guide for Respondents

The Board welcomes feedback from all interested parties on this proposal. 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 Lisa Joseph, Technical Manager – Peer Review, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by August 19, 2016. Respondents can also direct comments and responses to PR_expdraft@aicpa.org by August 19, 2016.

Effective Date

Final revisions to the *Standards* will be effective, if approved by the Board, May 1, 2017.

DRAFT

Proposed Revisions

To aid understanding, *Standards* are presented in this section if they contain a proposed revision or if a related Interpretation contains a proposed revision.

Peer Review Standards

Notice to Readers

In order to be admitted to or retain their membership in the AICPA, members of the AICPA who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program or, if practicing in firms not eligible to enroll, are themselves enrolled in such a program:

- -if the services performed by such a firm or individual are within the scope of the AICPA's practice-monitoring standards and
- -the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

Firms have peer reviews because of the public interest in the quality of the accounting, auditing, and attestation services provided by public accounting firms. In addition, firms indicate that peer review contributes to the quality and effectiveness of their practices. Furthermore, most state boards of accountancy require its licensees to undergo peer review, which they may also call compliance assurance, to practice in their state. Other regulators require peer review in order to perform engagements and to issue reports under their standards. Therefore, due to this public interest, we allow firms without AICPA members to enroll in the AICPA Peer Review Program.

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

These standards are applicable to firms (and individuals) enrolled in the AICPA Peer Review Program and to individuals and firms who perform and report on such peer reviews, to entities approved to administer the peer reviews, and to associations of CPA firms authorized by the AICPA Peer Review Board (board) to assist its members in forming review teams. The AICPA Peer Review Program may not be administered by any entity -without written permission from the AICPA Peer Review Board. These standards are not intended for peer reviews of organizations that are not public accounting firms.

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

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

Overview

- .01** The purpose of this document is to provide standards for administering, planning, performing, reporting on and the acceptance of peer reviews of CPA firms (and individuals) enrolled in the AICPA Peer Review Program ([program](#)) (see interpretations). Those processes collectively are also called practice monitoring because it is the monitoring of a CPA firm's accounting and auditing practice.
- .02** The goal of practice monitoring, and the program itself, is to promote [and enhance](#) quality in the accounting and auditing services provided by the CPA firms (and individuals) subject to these standards. This goal serves the public interest and enhances the significance of AICPA membership.
- .03** Firms (and individuals) (see interpretations) enrolled in the program are required to have a peer review, once every three years, of their accounting and auditing practice [not subject to Public Company Accounting Oversight Board \(PCAOB\) permanent inspection \(see interpretations\) related to non-Securities and Exchange Commission \(SEC\) issuers](#) covering a one-year period. The peer review is conducted by an independent evaluator known as a peer reviewer. The AICPA oversees the program, and the review is administered by an entity approved by the AICPA to perform that role.

Introduction and Scope

- .05** Firms (and individuals) (see interpretations) enrolled in the program have the responsibility to:
- a. Design and comply with a system of quality control for its accounting and auditing practice that provides the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Statement on Quality Control Standards (SQCS) No. 8, A Firm's System of Quality Control (Redrafted) (AICPA, Professional Standards, QC sec. 10), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice.
 - b. Perform accounting and auditing engagements in accordance with applicable professional standards using competent personnel¹ (partners² and staff³).
 - c. Have independent peer reviews of their accounting and auditing practices (see interpretations). All [enrolled](#) firms ~~that an AICPA member is associated with~~ should undergo a peer review if the services performed and reports issued by the firm require a peer review.

¹ Personnel are defined per Statement on Quality Control Standards (SQCS) as partners and staff.

² Partners are defined per SQCS as any individual with authority to bind the firm with respect to the performance of a professional services engagement. [Depending on how a CPA firm is legally organized, its partner\(s\) could have other names, such as shareholder, member, or proprietor.](#)

³ Staff are defined per SQCS as professionals, other than partners, including any specialists that the firm employs.

- d. Engage a peer reviewer to perform the peer review in accordance with these standards, in a timely manner.
 - e. Take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken.
 - f. Provide written representations to describe matters significant to the peer review (see appendix B “Considerations and Illustrations of Firm Representations”).
 - g. Understand the AICPA Peer Review Board’s [\(board\)](#) guidance on resignations from the program (see interpretations).
 - h. Cooperate with the peer reviewer, administering entity, and the [AICPA Peer Review Board \(board\)](#) in all matters related to the peer review, that could impact the firm’s enrollment in the program, including [paying administrative fees](#), arranging, scheduling, and completing the review and taking remedial, corrective actions and implementing other plans as needed (see interpretations).
- .06** An accounting and auditing practice for the purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)⁴; Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under [Public Company Accounting Oversight Board \(PCAOB\)](#) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm’s accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).
- .09** The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. On System Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. On Engagement Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified in engagements. These actions will be positive and remedial. Disciplinary actions (including those that can result in the termination of a firm’s enrollment in the program and the subsequent loss of membership, [if applicable](#), in the AICPA and some state CPA societies by its partners⁵ and employees) will be taken only for a failure to cooperate,

⁴ Statements on Standards for Accounting and Review Services that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes (see interpretations).

⁵ [Partners are defined per SQCS as any individual with authority to bind the firm with respect to the performance of a professional services engagement. A partner is a proprietor, shareholder, equity or non-equity partner, or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned.](#) Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as *shareholder, member, or proprietor*.

failure to correct inadequacies, or when a firm is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

General Considerations

Administrative Requirements

.11 All peer reviews intended to meet the requirements of the program should be carried out in conformity with these standards under the supervision of a state CPA society, group of state CPA societies, the AICPA Peer Review Board's board's committees including but not limited to the National Peer Review Committee (National PRC) (see interpretations), or other entity (hereinafter, administering entity) approved by the board to administer peer reviews.

Timing of Peer Reviews

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

Peer Review Documentation and Retention Policy

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

Organizing the System or Engagement Review Team

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

Qualifying for Service as a Peer Reviewer

System and Engagement Reviewers

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

- a. Be a member of the AICPA in good standing (that is, AICPA membership in active, non-suspended status) licensed to practice as a CPA.
- b. Be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program (see interpretations), as a partner of the firm, or as a

manager or person with equivalent supervisory responsibilities.^{6, 7} To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements (see interpretations). CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise (see interpretations).

- c. Be associated with a firm (or all firms if associated with more than one firm) that has received a report with a peer review rating of pass for its most recent System or Engagement Review that was accepted timely, ordinarily within the last three years and six months (see interpretations).
- d. Possess current knowledge of professional standards applicable to the kind of practice to be reviewed, including quality control and peer review standards. This includes recent experience in and knowledge about current rules and regulations appropriate to the level of service applicable to the industries of the engagements that the individual will be reviewing (see interpretations).⁸
- e. Have at least five years of recent experience in the practice of public accounting in the accounting or auditing function.
- f. Have provided the administering entity with information that accurately reflects the qualifications of the reviewer including recent industry experience, which is updated on a timely basis (see interpretations).
- g. If the reviewer will review engagements that must be selected in a System Review under paragraph .63, possess specific additional qualifications (see interpretations).
- h. 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.

Other Peer Reviewer or Reviewing Firm Qualification Considerations

.34 Communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of a peer reviewer or reviewing firm's accounting and auditing practice, and

⁶ The board recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. These standards are not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise. For instance, in a System Review, a reviewer of auditing engagements should be currently reviewing or performing auditing engagements. In an Engagement Review, a reviewer of engagements performed under the Statements on Standards for Attestation Engagements should also be currently reviewing or performing the same type of engagements.

⁷ A manager or person with equivalent supervisory responsibilities is a professional employee of the firm who has either a continuing responsibility for the overall planning and supervision of engagements for specified clients or authority to determine that an engagement is complete subject to final partner approval if required.

⁸ A reviewer should be cautious of those high-risk engagements or industries in which new standards or regulations have been issued. For example, in those cases in which new industry standards or practices have occurred in the most recent year, it may be necessary to have current practice experience in that industry.

notifications of limitations or restrictions on a peer reviewer or reviewing firm to practice, may impact the peer reviewer or reviewing firm's ability to perform the peer review. The peer reviewer or reviewing firm has a responsibility to inform the administering entity of such communications or notifications (see interpretations).

Planning and Performing Compliance Tests

Selection of Engagements

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

Administering Peer Reviews

- .128 All peer reviews intended to meet the requirements of the program should be carried out in conformity with these standards under the supervision of a state CPA society, group of state CPA societies, the [AICPA Peer Review Board's committees including but not limited to the](#) National PRC (see interpretations), or other entity (hereinafter, administering entity) approved by the board to administer peer reviews. This imposes an obligation on reviewed firms to facilitate completion of their peer reviews in compliance with the procedures established by the board, and to cooperate with the peer reviewer, administering entity, and the board in all matters related to the review, that could impact the firm's enrollment in the program.
- .129 Entities requesting to administer the program are required to complete and sign a Plan of Administration annually whereby the entity agrees to administer the program in compliance with these standards, interpretations, and other guidance established by the board. Upon receipt of the plans by the AICPA, including jurisdictions ~~not~~ requesting [another entity](#) to administer the program for ~~firms in its~~ ~~their~~ state, the board annually approves the administering entities for all of the jurisdictions covered by the program.
- .130 This imposes an obligation on the administering entities to ensure that their staff, technical reviewers, committee members, and all others involved in the administration of the program and performance of peer reviews comply with these standards, interpretations, and other guidance established by the board. Administering entities shall also cooperate with the board in all matters related to the administration of the program. Failure to comply with these standards, interpretations, and other guidance may result in the revocation of the administering entity's plan by the board. If an administering entity refuses to cooperate or is found to be deficient in administering the program in compliance with these standards or with other guidance, the board may decide pursuant to fair procedures whether the

administering entity's plan should be revoked or whether some other action should be taken.

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

Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities

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

Cooperating in a Peer Review

- .145 If a decision is made by the hearing panel to terminate a firm's enrollment in the program, the firms with AICPA members will have the right to appeal to the AICPA Joint Trial Board and firms without AICPA members will have the right to appeal in accordance with fair procedures developed by the board; for a review of the termination decision. hearing panel's findings. The fact that a firm's enrollment in the program has been terminated shall be published in such form and manner as the AICPA Council may prescribe.

Effective Date

- .206 The effective date for these standards is for peer reviews commencing on or after January 1, 2009 and QCM reviews commencing on or after January 1, 2011. Early implementation is permitted for QCM reviews, but not for peer reviews.

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 Report)

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

.207

1. Firms (and individuals) enrolled in the AICPA Peer Review Program are required to have a peer review, once every three years, of their accounting and auditing practice [that are not subject to PCAOB permanent inspection related to non-SEC issuers](#) covering a one-year period. The peer review is conducted by an independent evaluator, known as a peer reviewer. The AICPA oversees the program, and the review is administered by an entity approved by the AICPA to perform that role.

2. The peer review helps to monitor a CPA firm's accounting and auditing practice (*practice monitoring*). The goal of the practice monitoring, and the program itself, is to promote [and enhance](#) quality in the accounting and auditing services provided by the ~~AICPA members and their~~ CPA firms [subject to these standards](#). This goal serves the public interest and enhances the significance of AICPA membership [and accounting and audit quality](#).

3. There are two types of peer reviews: System Reviews and Engagement Reviews. System Reviews focus on a firm's system of quality control and Engagement Reviews focus on work performed on particular selected engagements. As noted in paragraphs .04 and .157, a further description of System and Engagement Reviews, and Quality Control Materials (QCM) Reviews, as well as a summary of the nature, objectives, scope, limitations of, and procedures performed on them, is provided in the following sections.

System Reviews

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

5. Professional standards are literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to comply with when designing its system and when performing its work. Professional standards include but are not limited to the Statements on Quality Control Standards issued by the AICPA that pertain to leadership responsibilities for quality within the firm (the "tone at the top"); relevant ethical requirements (such as independence, integrity and objectivity); acceptance and

continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring.

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

7. Based on the types of engagements firms perform, they may also have their practices reviewed or inspected on a periodic basis by regulatory or governmental entities, including but not limited to the Department of Health and Human Service, the Department of Labor, and the PCAOB. The team captain obtains an understanding of those reviews or inspections, and he or she considers their impact on the nature and extent of the peer review procedures performed.

8. Based on the peer reviewer's planning procedures, the reviewer looks at a sample of the CPA firm's work, individually called engagements. The reviewer selects engagements for the period covered by the review from a cross section of the firm's practice with emphasis on higher risk engagements. The engagements selected include those performed under *Government Auditing Standards*, audits of employee benefit plans, audits of depository institutions (with assets of \$500 million or greater), audits of carrying broker-dealers, and examinations of service organizations (Service Organization Control [SOC] 1[®] and SOC 2[®] engagements) when applicable. The scope of a peer review only covers accounting and auditing engagements performed under U.S. professional standards; it does not include the firm's [engagements that are subject to PCAOB permanent inspection](#) ~~SEC issuer practice~~, nor does it include tax or consulting services. The reviewer will also look at administrative elements of the firm's practice to test the elements listed previously from the Statements on Quality Control Standards.

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

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

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

Engagement Reviews

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

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

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

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

16. When the CPA firm receives a report with a peer review rating of *pass*, the peer reviewer has concluded that nothing came to his or her attention that the CPA firm's work was not performed and reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *pass with deficiencies* is issued when the reviewer concludes that nothing came to his or her attention that the work was not performed and reported on in conformity with applicable professional standards in all

material respects, except in certain situations that are explained in detail in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that as a result of the situations described in the report, the work was not performed or reported on in conformity with applicable professional standards in all material respects.

17. An Engagement Review does not provide the reviewer with a basis for expressing any assurance as to the firm's system of quality control for its accounting practice, and no opinion or any form of assurance is expressed on that system.

Quality Control Materials Reviews

18. An organization (hereinafter referred to as *provider*) may sell or otherwise distribute quality control materials (QCM or materials) that it has developed to CPA firms (hereinafter referred to as *user firms*). QCM may be all or part of a user firm's documentation of its system of quality control, and it 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).

19. A QCM review is a study and appraisal by an independent evaluator (known as a QCM reviewer) of a provider's materials, as well as the provider's system of quality control to develop and maintain the materials (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 materials produced by the provider are appropriate so that user firms can rely on the materials. 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 or PCAOB guidance, nor does it cover materials for tax or consulting services.

20. 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 materials. The QCM reviewer obtains this understanding through inquiry of provider personnel, review of documentation on the provider's system, and review of the materials.

21. Based on the planning procedures, the QCM reviewer looks at the provider's QCM, including the instructions, guidance, and methodology therein. The scope of a QCM review encompasses those materials 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 the QCM are current, procedures for reviewing the technical accuracy of the materials, 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 materials forms the basis for the QCM reviewer's conclusions in the QCM review report.

22. 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 materials 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 materials 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 and the materials produced by the provider are not appropriate, and the reasons why are explained in detail in the report.

23. 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 its materials. 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 materials 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 materials that should not be relied upon. Projection of any evaluation of a system or the materials to future periods is subject to the risk that the system or materials may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Peer Review Interpretations

Notice to Readers

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

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

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

Use of Standards

1-1 *Question*—Paragraph .01 of the standards discusses that the standards are provided for CPA firms (and individuals) those enrolled in the program. Who determines program enrollment eligibility and who may administer the program? Who else may use these standards and who determines who enrolls in the program?

Interpretation—The AICPA Peer Review Board ("board") determines program enrollment eligibility and who may administer the program. CPA firms (and individuals) with AICPA members as well as without AICPA members may enroll in the program. Although the standards are currently intended for AICPA members and their firms, state CPA societies, or other organizations that are approved by the AICPA Peer Review Board (board) to administer the program, AICPA members may also use these standards, as applicable,^{fn 1} in administering peer reviews of non-

AICPA firms (and individuals). Administering entities may only use the Standards to administer the AICPA Peer Review Program.

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

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

1-2 *Question*—Who is currently eligible to enroll in the program, which is administered by committees of the board including but not limited to the National Peer Review Committee (National PRC), state CPA societies, or other organizations approved by the board?

Interpretation—CPA firms ~~in which at least one partner is a member of the AICPA~~ and, in certain circumstances, individual AICPA members and CPAs who are not members of the AICPA may enroll.

1-4 *Question*—Can state CPA societies or other organizations that are approved by the board to administer the program use the standards, as applicable, to administer peer reviews of ~~non-AICPA~~ firms without AICPA members?

Interpretation—Yes, except for firms required to be registered with and subject to permanent inspection by the PCAOB or firms that perform engagements under PCAOB standards. Those firms are required to be administered by the National PRC. ~~This would also require that at least one owner of the firm be a member of the AICPA.~~

Individual Enrollment in the Program

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

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

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

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

Cooperating in a Peer Review

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

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

AICPA Peer Review Board Resolution

(Adopted April 29, 1996 with amendments through January 1, 2009, May 3, 2011, January 30, 2014, ~~and~~ September 30, 2014, [and September 27, 2016](#))

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

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

NOW, THEREFORE, BE IT RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be dropped by the AICPA Peer Review Board, without a hearing, thirty days after the AICPA Peer Review Program notifies the firm by certified mail, or other delivery method providing proof of receipt that the firm has failed to:

- (1) Timely file requested information with the entity administering the firm's peer review concerning the arrangement or scheduling of that peer review, prior to the commencement of the peer review,
- (2) Timely submit requested information to the reviewer necessary to plan or perform the firm's peer review, prior to the commencement of the peer review,
- (3) Have a peer review by the required date,
- (4) Accurately represent its accounting and auditing practice, as defined by the AICPA Standards for Performing and Reporting on Peer Reviews, after notifying its administering entity that it does not perform engagements that require the firm to have a peer review,
- (5) Timely pay in full the fees and expenses of the review team formed by an administering entity, or
- (6) Timely pay all fees related to the administration of the program that have been authorized by the governing body of an administering entity and the AICPA.

The AICPA Peer Review Board may at its discretion decide to hold a hearing. Whether a hearing is held or not, a-firms with AICPA members enrolled in the AICPA Peer Review Program have the right to appeal to the AICPA Joint Trial Board and firms without an AICPA member have the right to appeal pursuant to fair procedures established by the board within 30 calendar days of being notified that the firm's enrollment has been dropped.

If a firm's enrollment is dropped for not accurately representing its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews*, or subsequent failure to submit a peer review by a required due date, the matter will result in referral to the AICPA Professional Ethics Division of firms with AICPA members for investigation of a possible violation of the AICPA *Code of*

Professional Conduct. If a firm's enrollment is dropped for such an omission or misrepresentation, reenrollment will be subject to approval by a hearing panel.

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

AICPA Peer Review Board Resolution

(Adopted April 29, 1996 with amendments through January 1, 2009, May 3, 2011, August 8, 2012, January 30, 2014, September 30, 2014, ~~and~~ November 30, 2014, and September 27, 2016)

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

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

NOW, THEREFORE, BE IT RESOLVED: A firm is deemed as failing to cooperate by actions including but not limited to:

- Not responding to inquiries once the review has commenced,
- Withholding information significant to the peer review, for instance but not limited to:
 1. failing to discuss communications received by the reviewed firm relating to allegations or investigations in the conduct of accounting, auditing, or attestation engagements from regulatory, monitoring, or enforcement bodies;
 2. omission or misrepresentation of information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews*, including, but not limited to, engagements performed under Government Auditing Standards; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements],
- Not providing documentation including but not limited to the representation letter, quality control documents, engagement working papers, all aspects of functional areas,
- Not responding to MFCs or FFCs timely,

- Limiting access to offices, personnel or other once the review has commenced,
- Not facilitating the arrangement for the exit conference on a timely basis,
- Failing to timely file the report and the response thereto related to its peer review, if applicable,
- Failing to cooperate during oversight, or
- Failing to timely acknowledge and complete required corrective actions or implementation plans.

The firm will be advised by certified mail, or other delivery method providing proof of receipt, that the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated. A firm enrolled in the AICPA Peer Review Program that has been notified that it is the subject of such a hearing may not resign until the matter causing the hearing has been resolved. After a hearing is held, a firm whose enrollment in the AICPA Peer Review Program has been terminated has the right to appeal the panel's decision to the AICPA Joint Trial Board or, for firms without an AICPA member partner, have the right to appeal pursuant to fair procedures established by the board within 30 calendar days of the hearing; and

If a firm omits or misrepresents information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews* that results in a material departure⁹ in the firm's most recently accepted peer review, acceptance of the peer review documents will be recalled. A hearing panel will determine whether the firm's enrollment in the AICPA Peer Review Program should be terminated. If the hearing panel determines that the firm's enrollment will not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision.

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 board committee or entity (hereinafter, administering entity) approved by the board to administer peer reviews. Under what circumstances are peer reviews administered by the National PRC?

⁹ Material departure is defined in the Report Acceptance Body Handbook, Chapter 3, Section VII, Recall of Peer Review Documents.

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 subject to permanent inspection by the PCAOB.
- b. The firm performs engagements under PCAOB standards.
- c. The firm is a provider of quality control materials (QCM) (or affiliated with a provider of QCM) that are used by firms that it peer reviews.

Firms that meet any or all of the preceding criteria during the peer review year, but not as of their peer review year end (for example, because they resigned or were terminated from their SEC issuer clients, whether or not they deregistered with the PCAOB) are still ordinarily required to have their review administered by the National PRC. The firm's peer reviewer is still required to comply with guidance specific to firms administered by the National PRC, including, but not limited to, guidance at Interpretations 40-1 and 40-2 regarding other planning considerations and reporting of PCAOB inspection results. One exception is if a firm was required to be registered with and inspected by the PCAOB during the peer review year, but then did not perform the engagement during that period (because they resigned or were terminated and thus were no longer the "auditor or accountant of record"), is not required to have its review administered by the National PRC if they deregister with the PCAOB prior to scheduling their review.

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. ~~This would also require that at least one owner of the firm be a member of the AICPA.~~

Timing of Peer Reviews

13-1

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

Interpretation—When an individual becomes an AICPA member, and the services provided by his or her firm (or individual) fall within the scope of the AICPA’s practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA *Professional Standards*, the firm (or individual) should enroll in the program and submit an enrollment form by the report date of the initial engagement. If the firm (or individual) does not initially provide services falling within the scope of the standards, the firm (or individual) should enroll in the program and submit an enrollment form by the report date of their initial engagement. The administering entity will consider the firm’s (or individual’s) practice, the year-ends of their engagements, the report dates of their engagements, and the number and type of engagements to be encompassed in the review, in determining an appropriate due date. A firm’s subsequent peer review ordinarily will be due three years and six months from this peer review year-end.

If a firm’s most recent peer review was under the auspices [of a peer review program administered by an entity approved by the board fully involved in the administration of the AICPA Peer Review Program, conducted in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews](#)~~of the CPCAF PRP~~, it’s subsequent peer review ordinarily will be due three years and six months from the year-end of that peer review.

[If a firm’s most recent peer review was under the auspices of another peer review program by an administering entity not approved by the board, even if conducted in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews, it’s subsequent peer review ordinarily will be considered an initial peer review, due 18 months from the date it enrolled in the Program administered by an administering entity approved by the board.](#)

Independence, Integrity, and Objectivity

21-20

Question—Firm A and Firm B have shared office facilities for the last several years. Due to the growth of both firms, Firm B moved into new offices on January 1, 2014~~07~~. In March 2016~~09~~, Firm A engaged Firm B to perform the peer review of Firm A. Firm

A's peer review year-end is December 31, 2015~~08~~. Can Firm A perform the peer review of Firm B?

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

Peer Review Documentation and Retention Policy

25-1

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

Interpretation—Peer review documentation prepared during system and engagement reviews, with the exception of those documents described in the following paragraphs, should be retained by the reviewing firm, the administering entity, and the association in an association formed review team (if applicable) until 120 days after the peer review is completed (see Interpretation No. 25-2) or 42 months if firm is unenrolled or does not perform engagements requiring a peer review.

If the administering entity refers the firm to a hearing of the board due to non-cooperation, peer review documentation prepared during system and engagement reviews should be retained by the administering entity until the appeals period has ended. The appeals period ends 30 days from the date that the hearings process is completed (that is, the date of the decision notice letter, upon receipt of a plea of guilty by the firm, or the date of the administering entity's request to stop the hearings process). Peer review documentation should be retained by the administering entity for an additional 120 days after the end of the appeals period. If the reason the firm is referred for non-cooperation is due to failing to submit documentation or requested revisions to the review team or the administering entity, the reviewing firm and the association in an association formed review team (if applicable) should also adhere to these retention guidelines.

If the firm appeals the hearings decision, the administering entity, reviewing firm (if applicable), and the association in an association formed review team (if applicable) should retain peer review documentation until 120 days after the Joint Trial Board decision [or, for firms without AICPA members, pursuant to fair procedures established by the board.](#)

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

- a. Peer review report and the firm's response, if applicable
- b. Letter notifying the firm that its peer review has been accepted
- c. Letter indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions, if applicable. The administering entity should retain the version signed by the firm
- d. Letter notifying the firm that certain required actions have been completed, if applicable
- e. Finding for Further Consideration (FFC) forms, if applicable
- f. Letter requesting the reviewed firm's completion of an implementation plan, if applicable (the administering entity should retain the version signed by the firm)
- g. Letter notifying the firm that the implementation plan has been completed, if applicable
- h. Letter(s) relating to peer review document recall considerations
- i. Written representations from management of the reviewed firm
- j. Scheduling information

If the firm received two consecutive pass with deficiency(ies) or fail peer review reports, the administering entity should retain both the prior and current peer review reports until the subsequent peer review has been completed.

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

- a. Engagement letters
- b. Review team appointment acceptance letters
- c. Due date extension and year-end change requests and approvals
- d. Settlement agreements received by the administering entity from the AICPA Professional Ethics Division related to individual members' performance on accounting, auditing, or attestation engagements

The administering entity's peer review committee or the board may indicate that any or all documentation for specific peer reviews should be retained for a longer period of time than specified in the preceding paragraphs because, for example, the review has been selected for oversight. All peer review documentation is subject to oversight or review by the administering entity, the board, or other bodies the board may designate, including their staff. All peer review documentation prepared by the administering entities is subject to oversight.

If a firm has been enrolled in a [peer review program administered by an entity approved by the board fully involved in the administration of the AICPA Peer Review](#)

~~Program n institute approved practice monitoring program~~ but has not undergone a peer review in the last three years and six months since its last peer review because the firm has not performed engagements and issued reports requiring it to have a peer review, the documents previously noted should still be retained [for 42 months after completion of the previous peer review](#). The administering entity may also choose to retain the administrative documents noted, as applicable.

[If a firm's most recent peer review was under the auspices of another peer review program administered by an entity not approved by the board, even if conducted in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews,](#) ~~tThe documents for a firm that has not been enrolled in an Institute approved practice monitoring program for the last consecutive three years and six months~~ are not required to be retained [for purposes of the program](#).

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 enhance their capabilities 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 No. 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 [firms/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 [firms not enrolled in the program](#)~~on~~ [AICPA members](#).
- e. If the association makes any representations (in brochures, directories, pamphlets, websites, 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. The purpose of this requirement is to mitigate the appearance of a lack of independence. The board does not prohibit an association from making representations that are not objective or quantifiable; however, associations that make the decision to do so should understand that its member firms will then be unable to peer review other association members.

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 No. 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 QCM used by its member firms (see paragraphs .154–.205 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.

Qualifying for Service as a Peer Reviewer

31b-1

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

Interpretation—If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received a report

with a peer review rating of pass for its most recent System Review or Engagement Review that was accepted timely, ordinarily within the last three years and six months.

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

31b-4

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

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

34-2

Question—What if a reviewer or reviewing firm fails to notify the relevant administering entity or AICPA technical staff, as applicable, of any such allegations or investigations, limitations or restrictions, or both, relating to the conduct of his, her or its performance of accounting, audit, or attestation engagements within the specified time requirements?

Interpretation—If a reviewer or reviewing firm fails to notify the relevant administering entity or AICPA technical staff, as applicable, of such allegations or investigations, limitations or restrictions, or both, within the specified time requirements of “prior to being engaged to perform a peer review, or immediately, (if after engaged)” the reviewer or reviewing firm is not cooperating with the program. The board will consider and investigate, as deemed necessary, what actions should be taken in the specific circumstances. These actions may include, but are not limited to, on-site oversight at the reviewer’s expense, permanent removal from the list of qualified peer reviewers and referral of any AICPA members to the AICPA’s Professional Ethics Division for violating the AICPA Code of Professional Conduct, if applicable.

Office and Engagement Selection in System Reviews

59-3 *Question*—What factors should be considered if a firm has an office in a foreign country or other territory?

Interpretation—The standards are intended for firms enrolled in the Program of AICPA members who are engaged in the practice of public accounting in the United States or its territories, as well as other firms enrolled in the program. Some firms also have offices in foreign countries or their territories (“foreign jurisdictions”), including the Cayman Islands and Bermuda. One important factor to consider in determining whether reports issued for clients in those foreign jurisdictions are to be included in the scope of the peer review is the letterhead of the report issued. For instance, ordinarily if a U.S. firm issues a report on letterhead from its office in that foreign jurisdiction, the engagement would not be included in the scope of the peer review. Another factor is whether the reports issued for clients in the foreign jurisdictions are addressed by guidance from the state board of accountancy(s) that issues the firm’s license(s). Team or review captains should consult with AICPA technical staff if there is any question of whether an engagement is subject to peer review under these circumstances. In addition, reviewed firms need to consider whether there are peer review or practice monitoring requirements issued by the licensing authority of the foreign jurisdiction which are applicable to the reviewed firm.

Qualifying for Service as a Peer Review Committee Member, Report Acceptance Body Member, or Technical Reviewer

132-1 *Question*—Paragraphs .132 and .136 of the standards note that minimum requirements must be met to be a peer review committee member, a report acceptance body member, or a technical reviewer. What are those requirements?

Interpretation—

Peer Review Committee Member

A majority of the peer review committee members and the chairperson charged with the overall responsibility for administering the program at the administering entity should possess the qualifications required of a team captain in a System Review. All committee members must be AICPA members in good standing, whether conducting committee member duties for firms with or without AICPA members. A committee member who is suspended or restricted from scheduling or performing peer reviews no longer meets the qualifications until such suspension or restriction is removed. Reinstatement as a committee member would be at the discretion of the administering entity or committee.

Report Acceptance Body Member

Each member of an administering entity's report acceptance body charged with the responsibility for acceptance of peer reviews ~~must~~should

- a. be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.
- b. be associated with a firm (or all firms if associated with more than one firm) that has received a report with a peer review rating of *pass* on its most recently accepted System or Engagement Review that was accepted timely, ordinarily within the last 3 years and 6 months (see [Interpretation No. 31b-1](#)).
- c. demonstrate proficiency in the standards, interpretations, and guidance of the program (see [Interpretation No. 33-1](#)).
- d. be an AICPA member in good standing, whether conducting report acceptance body member duties for firms with or without AICPA members.

A majority of the report acceptance body members and the chairperson charged with the responsibility for acceptance of System Reviews should possess the qualifications required of a System Review team captain.

A national list of consultants will be maintained by the AICPA, so that the administering entity has an available pool of consultants with GAS, ERISA, FDICIA, carrying broker-dealer, and service organization experience to call upon in the instance when it does not have an experienced RAB member to consider the review of a firm when circumstances warrant. The national RAB consultant would not necessarily have to participate physically in the RAB meeting (teleconference option). The national RAB consultant will not be eligible to vote on the acceptance of a review. Determination that a review requires a national RAB consultant should be made prior to assigning the review to a RAB. The national RAB consultant would have to meet the following qualifications for RAB participation:

- a. Currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active, a consultant should be presently involved in the supervision of one or more of his or her firm's accounting or auditing engagements or

carrying out a quality control function on the firm's accounting or auditing engagements. To be considered a consultant on GAS, ERISA, FDICIA, carrying broker-dealer or service organization engagements, the current activity must include the respective industry asked to consult upon.

- b. Associated with a firm (or all firms, if associated with more than one firm) that has received a report with a peer review rating of *pass* on its most recently accepted System Review that was accepted timely, ordinarily within the last three years and six months.
- c. Not associated with an engagement that was deemed not performed in accordance with professional standards on the consultant's firm's most recently accepted System Review.

d. be an AICPA member in good standing whether conducting consultant duties for firms with or without AICPA members.

A report acceptance body member who is suspended or restricted from scheduling or performing peer reviews no longer meets the qualifications until such suspension or restriction is removed. Reinstatement as a report acceptance body member would be at the discretion of the administering entity or committee.

Technical Reviewers

Each technical reviewer charged with the responsibility for performing technical reviews should

- a. demonstrate proficiency in the standards, interpretations, and guidance of the program applicable to the type of peer reviews being evaluated and that meet the requirements of the team captain or review captain training requirements established by the board (see [Interpretation No. 33-1](#)).
- b. participate in at least one peer review each year, which may include participation in an on-site oversight of a System Review.

c. be an AICPA member in good standing, whether conducting technical reviewer duties for firms with or without AICPA members.

d. have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Technical reviewers are to obtain a minimum amount of CPE to maintain the appropriate level of accounting and auditing knowledge.

If a technical reviewer does not have such knowledge and experience, the technical reviewer may be called upon to justify why he or she should be permitted to perform technical reviews or oversights. The administering entity has the authority to decide whether a technical reviewer's knowledge and experience is sufficient and whether he or

she has the capability to perform a particular technical review or oversight whether there are high-risk engagements involved or other factors.

The fundamental purpose of CPE is to maintain or increase, or both, professional competence. AICPA members are required to participate in 120 hours of CPE every 3 years. In order to maintain current knowledge of accounting, auditing, and quality control standards, technical reviewers should obtain at least 40 percent of the AICPA-required CPE in subjects relating to accounting, auditing, and quality control. Technical reviewers should obtain at least 8 hours in any 1 year and 48 hours every 3 years in subjects relating to accounting, auditing, and quality control. The terms *accounting*, *auditing*, and *quality control* should be interpreted as CPE that would maintain current knowledge of accounting, auditing, and quality control standards for engagements that fall within the scope of peer review as described in paragraphs .06–.07 of the standards.

Technical reviewers have the responsibility of documenting their compliance with the CPE requirement. They should maintain detailed records of CPE completed in the event they are requested to verify their compliance. The reporting period will be the same as that maintained for the AICPA.

A technical reviewer who is also a peer reviewer and is suspended or restricted from scheduling or performing peer reviews no longer meets the qualifications until such suspension or restriction is removed. Reinstatement as a technical reviewer would be at the discretion of the administering entity or committee.

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