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# **EXPOSURE DRAFT**

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

### **Clarification of AICPA Standards for Performing and Reporting on Peer Reviews**

**September 15, 2021**

**Comments are requested by December 15, 2021**

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

**Comments should be addressed to Brad Coffey @ [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**



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# Contents

<i>Explanatory Memorandum</i> .....	6
<b>Introduction</b> .....	6
<b>Background</b> .....	6
<b>Explanation of Proposed Changes</b> .....	7
<b>Issues for Consideration, Written Comments, or Suggestions</b> .....	10
<b>Comment Period</b> .....	11
<b>Guide for Respondents</b> .....	11
<b>Effective Date</b> .....	11
<i>AICPA Peer Review Board</i> .....	13
<b>Peer Review Board Members</b> .....	13
<b>Non-Peer Review Board Standards Task Force Members</b> .....	13
<b>AICPA Staff</b> .....	13
<i>Exposure Draft — Proposed AICPA Standards for Performing and Reporting on Peer Reviews, Effective May 1, 2022</i> .....	14
<b>PR-C Section 100, Concepts Common to All Peer Reviews</b> .....	14
Introduction .....	14
Objective .....	15
Definitions .....	15
Requirements .....	23
Application and Other Explanatory Material .....	29
<b>PR-C Section 200, General Principles and Responsibilities for Reviewers</b> .....	38
Introduction .....	38
Objective .....	38
Definitions .....	38
Requirements .....	38
Application and Other Explanatory Material .....	44
<b>Appendix A — AICPA Peer Review Board Rules of Procedures for Reviewers</b> .....	51
<b>PR-C Section 210, General Principles and Responsibilities for Reviewers — System Reviews</b> .....	52
Introduction .....	52
Objectives .....	52
Definitions .....	52
Requirements .....	52
Application and Other Explanatory Material .....	67
<b>Appendix A — Consideration of the Results of Regulatory Oversight or Inspections in the Planning and Performance of a Peer Review (Ref: par. .A8)</b> .....	80

<b>Appendix B — Considering the Firm’s Monitoring Procedures to Reduce a Reviewer’s Testing Procedures (Ref: par. .A19)</b> .....	83
<b>Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements (Ref: par. .27)</b> .....	88
<b>Exhibit B — Illustrative Examples of the Reviewer’s Report on the Firm’s System of Quality Control</b> .....	91
<b>PR-C Section 220, <i>General Principles and Responsibilities for Reviewers — Engagement Reviews</i></b> .....	<b>111</b>
Introduction .....	111
Objectives .....	111
Definitions .....	111
Requirements .....	111
Application and Other Explanatory Material .....	119
<b>Appendix A — Common Examples of Noncompliance With Applicable Professional Standards</b> .....	124
<b>Exhibit B — Illustrative Examples of a Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed</b> .....	129
<b>PR-C Section 300, <i>General Principles and Responsibilities for Reviewed Firms</i></b> .....	<b>138</b>
Introduction .....	138
Objective .....	138
Definitions .....	138
Requirements .....	138
Application and Other Explanatory Material .....	143
<b>PR-C Section 310, <i>General Principles and Responsibilities for Reviewed Firms — System Reviews</i></b> .....	<b>149</b>
Introduction .....	149
Objective .....	149
Definitions .....	149
Requirements .....	149
Application and Other Explanatory Material .....	154
<b>Exhibit A — Illustrative Representation Letter</b> .....	159
<b>Exhibit B — Illustrative Examples of a Firm’s Letter of Response</b> .....	161
<b>PR-C Section 320, <i>General Principles and Responsibilities for Reviewed Firms — Engagement Reviews</i></b> .....	<b>169</b>
Introduction .....	169
Objective .....	169
Definitions .....	169
Requirements .....	169
Application and Other Explanatory Material .....	173
<b>Exhibit A — Illustrative Representation Letter</b> .....	178
<b>Exhibit B — Illustrative Example of a Firm’s Letter of Response</b> .....	180
<b>PR-C Section 400, <i>General Principles and Administration Responsibilities</i></b> .....	<b>182</b>
Introduction .....	182
Objective .....	182

Definitions .....	182
Requirements .....	183
Application and Other Explanatory Material .....	193
<b>Exhibit A — Example Familiarity Threat Policies and Procedures .....</b>	<b>202</b>
<b>Appendix A — Failure to Cooperate or Comply With the Requirements of the Program Referral</b>	
<b>Responsibilities .....</b>	<b>205</b>
<b>Appendix B — Disagreements .....</b>	<b>208</b>
<b>Appendix C — Considerations for the Recall of Peer Review Documents .....</b>	<b>212</b>
<b>PR-C Section 410, <i>The Report Acceptance Process</i> .....</b>	<b>218</b>
Introduction .....	218
Objective .....	218
Definitions .....	218
Requirements .....	218
Application and Other Explanatory Material .....	223
<b>PR-C Section 420, <i>Corrective Actions and Implementation Plans</i> .....</b>	<b>228</b>
Introduction .....	228
Objectives .....	228
Definitions .....	228
Requirements .....	229
Application and Other Explanatory Material .....	231
<b>Exhibit A — Allowable Implementation Plans: Engagement Reviews .....</b>	<b>235</b>
<b>Exhibit B — Suggested Corrective Actions: Engagement Reviews .....</b>	<b>235</b>
<b>Exhibit C — Allowable Implementation Plans: System Reviews .....</b>	<b>236</b>
<b>Exhibit D — Suggested Corrective Actions: System Reviews .....</b>	<b>237</b>
<b>Appendix A — Guidance for Outside Parties Engaged to Assist Firms in Completing Corrective</b>	
<b>Actions and Implementation Plans .....</b>	<b>238</b>
<b>PR-C Section 430, <i>Reviewer Monitoring and Performance</i> .....</b>	<b>246</b>
Introduction .....	246
Objectives .....	246
Definitions .....	246
Requirements .....	247
Application and Other Explanatory Material .....	251

## **Explanatory Memorandum**

### **Introduction**

This memorandum provides background on the proposed clarification of the AICPA Standards for Performing and Reporting on Peer Reviews (standards) issued by the AICPA Peer Review Board (board) and solicits input from all interested parties regarding this exposure draft and proposed revisions to the standards.

A copy of this exposure draft and the extant standards (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at [www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx](http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx). Mapping documents are available as an additional resource for respondents.

### **Background**

The AICPA Peer Review Program (program) monitors the quality of reviewed firms' accounting and auditing engagements and evaluates the systems of quality control under which those engagements are performed. Participation in the program is mandatory for AICPA membership, as explained in paragraph .03 of PR-C section 100, *Concepts Common to All Peer Reviews*, and peer reviews are now required for licensure in nearly all state licensing jurisdictions.

In 2017, the board approved a project to revise all extant peer review guidance, including the standards, using drafting conventions similar to those adopted by other professional standard setters in clarifying auditing and accounting literature. AICPA staff have received continual feedback that extant peer review guidance was difficult to navigate, read, and apply.

As such, the proposed clarified standards have been drafted using the following conventions, which are designed to make peer review guidance easier to read, understand, and apply:

- PR-C sections are organized by user (reviewed firms, peer reviewers, or administering entities) and review type (system reviews or engagement reviews).
- Relevant definitions for all clarified PR-C sections are provided in the first section, which is applicable to any user of the standards.
- Objectives are established for each clarified PR-C section.
- Requirements are separated from application and other explanatory material.
- Application and other explanatory material paragraphs are numbered using an "A" prefix and are presented in a separate section after the requirements.
- Formatting techniques, such as bulleted lists, are used to enhance readability.

To develop the proposed clarified peer review standards, each section of the extant Peer Review Program Manual was evaluated to determine whether its guidance represented a distinct requirement or application and other explanatory material. In other words, the standard paragraphs located in PRP section 1000, the interpretations located in PRP section 2000, supplemental guidance located in PRP section 3100, the Report Acceptance Body (RAB) Handbook located in PRP section 3300, and so on, are reflected in the proposed clarified standards as requirements or application and other explanatory material as appropriate. Because the presentation format of the clarified standards is significantly different from the extant Peer Review Program Manual, this exposure draft and its related mapping documents are not shown in tracked changes.

The board would like to emphasize that the proposed clarified standards do not substantially change what is required of firms, reviewers, or administering entities of the program. As previously stated, the primary objective is to make peer review guidance easier to read, understand, and apply. The board requests that interested parties review this exposure draft from a fresh perspective with this objective in mind, referring to the “Explanation of Proposed Changes” that includes a summary of the most significant changes and related requests for comment.

To assist with achieving the stated objective of the clarity project, the proposed standards have been structured into the following sections:

- PR-C Introduction and Notice to Readers
- PR-C section 100, *Concepts Common to All Peer Reviews*
- PR-C section 200, *General Principles and Responsibilities for Reviewers*
- PR-C section 210, *General Principles and Responsibilities for Reviewers — System Reviews*
- PR-C section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*
- PR-C section 300, *General Principles and Responsibilities for Reviewed Firms*
- PR-C section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*
- PR-C section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*
- PR-C section 400, *General Principles and Administration Responsibilities*
- PR-C section 410, *The Report Acceptance Process*
- PR-C section 420, *Corrective Actions and Implementation Plans*
- PR-C section 430, *Reviewer Monitoring and Performance*

Appendixes and exhibits are considered application and other explanatory material (unless stated otherwise) and are included at the end of the related PR-C sections.

Going forward, changes to the requirements of the standards will be exposed for a reasonable period for public comment. However, the board may, at its discretion modify application and other explanatory material, appendixes, exhibits, and other related guidance without an exposure period if circumstances warrant such action. In these situations, the board will discuss such revisions during meetings open to the public and will timely communicate any recommended courses of action to firms, reviewers, and administering entities.

## **Explanation of Proposed Changes**

The following represent what the board believes to be the most significant proposed changes to extant peer review guidance.

### ***Removal of the Requirement for the Majority of Procedures in a System Review to Be Performed at the Reviewed Firm’s Office***

The extant standards require the review team to perform the majority of the procedures in a system review at the reviewed firm's office. If the reviewer does not intend to meet this requirement, the reviewer is required to receive prior approval from the administering entity for each affected peer review.

The board determined that such a requirement was not necessary because firms have been able to effectively utilize modern technology to work remotely. Additionally, reviewers have been able to perform procedures remotely that would have normally occurred onsite (for example, staff interviews, the review of engagements, and meetings with engagement teams). As such, the board decided that the procedures should be performed at a location based on the reviewer's peer review risk assessment. The reviewer may determine that onsite procedures are necessary given the risks associated with the firm or the reviewer may determine that the majority of procedures can be performed at a location other than the reviewed firm's offices.

***Request for Comment***

*1. Please provide your views on the changes described. In addition, please provide your views about the advantages and disadvantages of performing some or all system review procedures remotely.*

***Change to the Requirements for Onsite Office Visits in System Reviews***

When performing a system review of a multi-office firm, extant peer review guidance requires the reviewer to visit a sufficient number of offices (onsite) to provide reasonable assurance that the quality control policies and procedures are adequately communicated throughout the firm. This includes a required visit to the firm's executive office on every peer review if one office is designated as such.

The board decided that, similar to the proposal to remove the requirement to perform a majority of procedures at the reviewed firm's office, this requirement was also no longer necessary given modern technology. The clarified standards would instead require the reviewer to consider whether visiting one or more offices of the firm is necessary when determining the appropriate procedures to be performed as part of the peer review's risk assessment. Specifically, proposed paragraph .A14 of PR-C section 210 describes risk factors that a reviewer may consider when determining whether to visit or select engagements from a particular office.

***Request for Comment***

*2. Please provide your views on the changes described. In addition, please provide your views on the advantages and disadvantages of visiting one or more offices of the reviewed firm.*



### ***Removal of the Requirement for Surprise Engagements in System Reviews***

Extant peer review guidance requires the reviewer in a system review to provide an engagement selection to the firm upon arrival at the reviewed firm's office, otherwise known as a surprise engagement. The purpose of this procedure is to mitigate the risk that the firm has not complied with the firm's policies and procedures related to timely completion of the assembly of final engagement files. In other words, it prevents a firm from modifying an engagement between the time the reviewer makes engagement selections and the time those engagements are actually reviewed. Extant peer review guidance states that this timeframe would usually be at least three weeks, to allow the firm to aggregate any files necessary for the review.

The board decided that modern technology utilized by most firms (in other words, the controls utilized by a firm's engagement software) makes this peer review procedure unnecessary in many situations. Therefore, similar to the changes related to the location of a peer reviewer's procedures, the board is proposing that a reviewer determine whether a surprise engagement is necessary as part of the peer reviewer's risk assessment procedures.

#### ***Request for Comment***

*3. Please provide your views on the changes described. In addition, please provide your views on specific peer review risks that may warrant selecting a surprise engagement.*

### ***Removal of the Term "Significant Deficiency" in Engagement Reviews***

The extant term "significant deficiencies," in a report with a peer review rating of *fail* in an engagement review, describes the number of deficiencies (specifically, it refers to deficiencies being present on all engagements submitted for review) rather than the severity of the deficiencies. Because of this, the board believes the term was misleading and unnecessary. This proposal removes the term "significant deficiencies" from the context of an engagement review but retains the description of a peer review report rating of *fail* when the review captain concludes that deficiencies are present on all the engagements submitted for review, or in other words, all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.

#### ***Request for Comment***

*4. Please provide your views on the changes described.*

### ***Removal of the Requirement That Peer Review Documents for Single Audit Engagements Be Included in Materials for RAB Meetings***

Materials related to a particular peer review are provided in summary form to a RAB to facilitate the report acceptance process. Extant guidance in the RAB handbook requires that such materials include the engagement profile and supplemental peer review checklist for single audits, including the explanation of “no” answers and other comments. Prior to being provided to the RAB, these documents are often subject to review by a technical reviewer, who is required to obtain a specified number of CPE hours related to single audit engagements and is now required to complete a CPE course specifically related to performing technical reviews of peer reviews with single audits. Therefore, the board does not believe that providing these documents to the RAB is necessary.

Under the proposed requirements in paragraphs .45–.46 of PR-C section 400, the board believes that technical reviewers are required to have appropriate qualifications and training to review such documentation so that critical information is provided to the RAB to assist it with evaluating the results of peer reviews. The board also believes that it is appropriate to allow the RAB to exercise its discretion to request these documents when it deems necessary, as reflected in paragraph .A5 of PR-C section 410.

#### ***Request for Comment***

*5. Please provide your views on the changes described.*

### ***Removal of Guidance on Performing and Reporting on Reviews of Quality Control Materials***

The guidance associated with performing and reporting on quality control materials (QCM) reviews is not included because it is no longer intended to be an option for QCM providers as of the effective date of the proposed clarified standards. Instead, QCM providers may choose to have an examination of their materials conducted in accordance with attestation standards established by the AICPA. Guidance on how a reviewer should assess the results of a QCM examination engagement when performing the planning procedures of a peer review is already included in extant peer review guidance.

### ***Issues for Consideration, Written Comments, or Suggestions***

Respondents are asked to provide their views on whether the proposed clarified standards accomplish the board’s objective of making peer review guidance easier to read, understand, and apply. In addition to the changes listed previously, the board requests respondents’ views on the following:

#### ***Requests for Comment***

- 6. Are the requirements in the proposed peer review standards clear and understandable?*
- 7. Is the application and other explanatory material helpful to support the application of the requirements?*
- 8. Are the definitions easy to understand and apply? In addition, please provide your views about whether the master glossary is helpful to all users of the standards (refer to PR-C section 100).*
- 9. Do the requirements for commencing peer reviews appropriately reflect considerations for both system and engagement reviews? Do you think an engagement letter should be required for all peer reviews?*
- 10. Is the application and other explanatory material appropriate and understandable regarding committee members who are not team captain–qualified but practicing with a firm that has received a non-pass peer review report rating (refer to paragraphs .17–.19 of PR-C section 400)?*

## **Comment Period**

The comment period for this exposure draft ends on December 15, 2021.

## **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, when appropriate, make specific suggestions for any proposed changes to wording. If you agree with proposals in the exposure draft, it will be helpful for the board to be made aware of this view, as well.

Written comments on this exposure draft will become part of the public record of the AICPA and will be made available on the AICPA’s website. Please provide responses that are

- submitted as Microsoft Word documents by December 15, 2021, and
- directed to Brad Coffey at [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org).

## **Effective Date**

If approved by the board, the final standards will be effective for reviews commencing on or after May 1, 2022. Due to the interdependence of stakeholder groups involved in the report acceptance process, early implementation is not permitted.

## **Request for Comment**

- 11. Please provide your views on the proposed effective date. If you are not in support of the proposed date, please provide reasons for your response. In addition, what are your views on*

*the types of training and resources that would be helpful for stakeholders to begin using the proposed standards?*

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## **Exposure Draft — Proposed AICPA Standards for Performing and Reporting on Peer Reviews, Effective May 1, 2022**

### **PR-C Section 100, *Concepts Common to All Peer Reviews***

#### **Introduction**

##### **Scope of This Section**

**.01** This section contains general principles and responsibilities for the AICPA Peer Review Program (the program) and applies to

- a.* firms and individuals (Ref: par. .45–.47) enrolled in the program (Ref: par. .A1),
- b.* firms and individuals who perform and report on peer reviews, and
- c.* administering entities (AEs) of peer reviews (Ref: par. .A2).

The AICPA Peer Review Board (board), among other responsibilities, determines program enrollment eligibility, peer reviewer qualifications, and who may administer the program.

**.02** The AICPA Standards for Performing and Reporting on Peer Reviews (the standards) are not intended for peer reviews of

- a.* organizations that are not public accounting firms or
- b.* a firm's accounting and auditing practice applicable to engagements subject to Public Company Accounting Oversight Board (PCAOB) permanent inspection. (Ref: par. .A3)

##### **Authorization of the Program**

**.03** AICPA bylaws and the AICPA Code of Professional Conduct require that members engaged in the practice of public accounting are practicing with a firm that is enrolled in an Institute-approved practice-monitoring program (AICPA Peer Review Program) if the firm

- a.* performs services within the scope of these standards and
- b.* issues reports purporting to be in accordance with AICPA professional standards.

These standards are applicable to firms and individuals engaged in the practice of public accounting in the United States or its territories. (Ref: par. .A4–.A6)

**.04** These standards do not require firms that only perform preparation engagements under the Statements on Standards for Accounting and Review Services (SSARSs) to enroll in the program. (Ref: par. .A7)

##### **Relationship of Peer Review With Quality Control Standards**

**.05** Users of these standards should understand the quality control standards established by the AICPA. The firm's system of quality control may affect both the conduct of individual engagements and the conduct of a firm's accounting and auditing practice. However, deficiencies in or instances of noncompliance with a firm's system of quality control do not, in and of themselves, indicate that an engagement was not performed in accordance with the requirements of the applicable professional standards. (Ref: par. .A8–.A9)

## **Effective Date**

**.06** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

## **Objective**

**.07** The overall objective of the program is to promote and enhance quality in the accounting and auditing services provided by the firms (and individuals) subject to the standards, in service of the public interest. (Ref: par. .A10)

**.08** There are two types of peer reviews:

- a. System reviews.* For guidance, see PR-C section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, and section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*.
- b. Engagement reviews.* For guidance, see PR-C section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*, and section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*.

**.09** Firms that perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under PCAOB standards, as their highest level of service must have system reviews. Firms that perform services under SSARs or services under the SSAEs not included in system reviews as their highest level of service are eligible to have engagement reviews. (Ref: par. .A11)

**.10** Engagements performed under international standards should be included in the scope of a peer review. Under U.S. professional standards, the engagement should comply with elements of both the international standards and U.S. professional standards. However, the peer reviewer should test compliance with only the U.S. professional standards. Testing of compliance with any international standards is not included in the scope of the review. The peer reviewer should consult with AICPA staff for further guidance, if necessary. (Ref: par. .A12)

## **Definitions**

**.11** For the purposes of all sections of these standards, the following terms have the meanings attributed as follows:

**Acceptance date.** A peer review is accepted on the date the peer review committee (the committee) or report acceptance body (RAB) concludes a peer review was performed and reported in accordance with the standards and, for *pass with deficiencies* and *fail* reports, when the reviewed firm has agreed to perform required corrective actions as a condition of acceptance. (Ref: par. .A13–.A14)

**Accounting and auditing practice.** A practice that performs engagements under Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARs), Statements on Standards for Attestation Engagements (SSAEs), *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office, or PCAOB standards. 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.

**Administering entity (AE).** A state CPA society, group of state CPA societies, or the National Peer Review Committee (National PRC) that is approved by the board to administer peer reviews.

**Allegation or investigation.** A formal declaration, statement, or other similar assertion, the validity of which has not been established, indicating that there may be deficiencies in the reviewer or reviewing firm’s compliance with a regulatory, monitoring, or enforcement body’s (regulatory body’s) rules (procedures, laws, professional standards, or practices). (Ref: par. .A15)

**Association of CPA firms (association).** Any group, affiliation, or alliance 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. (Ref: par. .A54–.A56)

**Captain.** The reviewer that has the ultimate responsibility for the review, including the work performed by team members.

**Closing meeting.** A meeting held in advance of the exit conference between the captain and the reviewed firm, to discuss the review team’s observations, matters, findings, deficiencies, and significant deficiencies identified; the expected type of report to be issued, and the reviewed firm’s responsibilities related to such matters.

**Commencement date.** The earlier date of when the reviewer begins the review of engagements or when the reviewer learns information that affects the results of the current review. (Ref: par. .A16)

**Completion date.** For *pass* reports, the completion date is the same as the acceptance date. For *pass with deficiencies* and *fail* reports, the completion date is the date the reviewed firm has



completed all required corrective actions to the satisfaction of the committee (or its designee). (Ref: par. .A14)

**Compliance matter.** When a firm's properly designed quality control policy or procedure does not operate as designed, as evidenced by the failure of reviewed firm personnel to comply with such system.

**Consent agenda.** A list of reviews, corrective actions, implementation plans, and other items that allow RAB members to vote on all items at one time without discussion; however, any RAB member may extract any item from the consent agenda for discussion and a separate vote if necessary. The following minimum criteria must be met for a review to be placed on the consent agenda: (Ref: par. .A17)

- A report rating of *pass*
- No matters for further consideration (MFCs)
- Without reviewer performance feedback

Items related to corrective actions and implementation plans should be placed on the consent agenda only if

- there are clearly identifiable actions or procedures that could be accepted by the technical reviewer or CPA on staff (see paragraph .08 of section 420),
- requests to waive corrective actions or implementation plans are specific and easy to understand, or (Ref: par. .A18)
- requests to extend due dates where there is no reason to believe the extensions should not or would not be approved by the RAB. (Ref: par. .A19)

**Control risk.** The risk that an engagement will not be performed or reported on in conformity with the requirements of applicable professional standards in all material respects due to a failure in the reviewed firm's system of quality control.

**Corrective actions.** Remedial actions prescribed by the committee, RAB, or board that should be agreed to and completed by a reviewed firm or peer reviewer. (Ref: par. .A20)

- *Peer reviewers.* A remedial action prescribed by the committee or board in a performance deficiency letter. (Ref: PR-C section 200, *General Principles and Responsibilities for Reviewers*, PR-C section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, and PR-C section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*)
- *Reviewed firms.* A remedial action prescribed by the committee or board of a reviewed firm as a condition of acceptance of a *pass with deficiencies* or *fail* peer review report in response to a deficiency or significant deficiency or actions required of a reviewer

due to deficiencies in the reviewer's performance. A peer review with corrective actions is considered accepted the date the firm acknowledges its responsibility to complete the corrective actions. (Ref: PR-C section 300, *General Principles and Responsibilities for Reviewed Firms*, PR-C section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*, and PR-C section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*)

**CPA on staff.** The CPA responsible for managing the program at the AE.

**Deficiency (system reviews).** One or more matters that the reviewer has concluded could create a situation in which the reviewed firm would not have reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in one or more important respects. Deficiencies should be documented in a peer review report with a rating of *pass with deficiencies*.

**Deficiency (engagement reviews).** One or more matters that the review captain concludes result in an engagement that is not performed or reported on in conformity with the requirements of applicable professional standards in all material respects. Deficiencies should be documented in a peer review report with a rating of *pass with deficiencies* or *fail*. (Ref: par. .A21)

**Deferred acceptance.** When the RAB does not have sufficient information to conclude whether the review was performed or reported on in accordance with the standards. Deferred reviews are subsequently re-presented to the RAB after reasons for deferral have been resolved by the reviewer or reviewed firm.

**Delayed acceptance.** When the RAB has sufficient information to conclude that the peer review was performed and reported on in accordance with the standards but there are minor revisions that need to be addressed prior to publicizing the results of the peer review. (Ref: par. .A13–.A14)

**Design matter.** When the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would likely result in engagements not performed or reported on in accordance with professional standards.

**Detection risk.** The risk that the reviewer will fail to detect deficiencies or significant deficiencies in the reviewed firm's system of quality control.

**Due date.** The date the peer review report and all required peer review materials are to be submitted to the AE.

**Engagement partner.** The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

**Exit conference.** A meeting between the captain and the firm held to discuss a summary of the peer review results, the firm responses, and the type of report to be issued.

**Fair procedures.** Procedures related to the potential termination of a firm's enrollment in the AICPA Peer Review Program that provide for an orderly proceeding, achieve a fair result, and adequately safeguard the rights of firms and individuals.

**Familiarity threat.** A risk that due to a long-standing or close personal relationship with committees, RABs, technical reviewers, peer reviewers, or firms subject to peer review, the evaluating party will not exercise a proper level of objectivity.

**Finding (system reviews).** One or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with the system such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with the requirements of applicable professional standards. A finding should be documented as a finding for further consideration (FFC) on an FFC form.

**Finding (engagement reviews).** One or more matters that the review captain concludes result in an engagement not performed or reported on in conformity with the requirements of applicable professional standards. A finding should be documented as a finding for further consideration (FFC) on an FFC form.

**Highest-risk areas.** The account or audit areas of most importance to the type of engagement based on a reviewer's judgment and experience.

**Implementation plan.** Actions required of a reviewed firm in response to a finding included on an FFC form. (Ref: par. .A20)

**Ineligible.** The term used to describe a reviewer who does not meet the required qualifications and, therefore, is not approved to schedule, commence, continue to perform, or participate in a peer review for any AE. (Ref: par. .06 of section 200 and .20–.22 of section 430)

**Inherent risk.** In the absence of a system of quality control, the risk of a reviewed firm's engagement not being performed or reported on in conformity with the requirements of applicable professional standards in all material respects.

**Initial engagement.** The first accounting or auditing service performed for a client, in a particular industry, engagement type, or as a level of service for a firm.

**Isolated matter.** An incident (or limited incidents) of noncompliance with professional standards or the firm's quality control policies and procedures on one or more engagements (or elements of the quality control system), but the same standards or policies and procedures were complied with on the remaining selected engagements or elements. (Ref: par. .A22)

**Limitation or restriction.** A corrective or disciplinary action or sanction imposed on a reviewer or reviewing firm by a regulatory body. (Ref: par. .A15)

**Limited restriction.** Prohibits an individual from performing peer reviews in a specific capacity such as limited to a specific industry or engagement type (for example, an individual is prohibited from performing employee benefit plan audits).

**Matter.** One or more “no” answers to questions in peer review checklists identified during a system review or an engagement review.

- *Engagement reviews.* One or more “no” answers to questions in peer review checklists that were not resolved to the review captain’s satisfaction. These are documented as matters for further consideration (MFCs) on an MFC form. (Ref: sections 220 and 320)
- *System reviews.* One or more “no” answers to questions in peer review checklists that a reviewer concludes warrant further consideration in the evaluation of a firm’s system of quality control. A matter should be documented as a matter for further consideration (MFC) on an MFC form. (Ref: sections 210 and 310)

**Must-cover.** An engagement industry that does not have to be selected for review, but a team member must have recent experience in the industry to aid in the risk assessment process and determination of whether an engagement from the must-cover industry should be selected for review. Appendix C, “Additional Requirements for Must-Select and Must-Cover Engagements,” of section 210 contains the industries or engagements with this designation.

**Must-select.** A type of engagement that must be included in the sample of engagements selected for review. Appendix C of section 210 contains the industries or engagements with this designation.

**Nonconforming engagement.** An engagement identified as not performed or reported on in accordance with the requirements of applicable professional standards in all material respects.

**Oversight Task Force (OTF).** The standing task force of the board responsible for establishing oversight policies and procedures to ensure that AEs are complying with the administrative procedures established by the Peer Review Board, reviews are being conducted and reported on in accordance with the standards, and the results of the reviews are being evaluated on a consistent basis in all jurisdictions. (Ref: par. .A23)

**Partner.** Any individual with authority to bind the firm with respect to the performance of a professional services engagement. Partners may include employees with this authority who have not assumed the risks and benefits of ownership. Firms may use different titles to refer to individuals with this authority.

**Peer reviewer (reviewer).** An independent evaluator who conducts a peer review.

**Peer Review Board (board).** The AICPA senior technical committee that governs the Peer Review Program.

**Peer review committee (committee).** A group of individuals appointed by an AE to oversee the administration, acceptance, and completion of peer reviews and performance of peer reviewers.

**Peer review contact.** A partner of the firm designated as the liaison between the review team, AE, and the reviewed firm.

**Peer review risk.** The risk that the reviewer issues an inappropriate report on the firm's system of quality control or compliance with it. It is composed of inherent risk, control risk, and detection risk.

**Performance deficiency.** Occurs when a pattern of reviewer performance findings exists, or the reviewer did not do either of the following: (Ref: par. .A24–.A25)

- a. Appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight, or RAB consideration and did not demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight, or RAB consideration
- b. Appropriately aggregate or evaluate matters noted on the review, such that the committee determined a deficiency was present when the reviewer did not elevate the matter beyond an MFC, or the committee determined a significant deficiency was present when the reviewer did not elevate the matter beyond an FFC

**Performance deficiency letter.** A letter issued to the reviewer by the committee or board that requires the reviewer to complete one or more corrective actions that are intended to improve the reviewer's future performance. (Ref: par. .A25)

**Performance feedback form.** A form used to document reviewer performance deficiencies or findings on individual reviews. The form is issued by the committee or board to the reviewer to communicate specific areas of needed improvements based on performance that was not in accordance with program guidance. (Ref: par. .A24)

**Performance finding.** A situation in which the reviewer has not performed in accordance with program guidance but that does not rise to the level of a performance deficiency.

**Period end.** The point in time or period of time for which financial information is represented in accordance with a financial reporting framework.

**Professional judgment.** The application of relevant training, knowledge, and experience, within the context provided by peer review and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of peer reviews.

**Personnel.** Partners and staff.

**Professional skepticism.** An attitude that includes a questioning mind and a critical assessment of evidence.

**Quality control function.** Performing an engagement quality control review as part of the engagement performance element of a firm's system of quality control or supervising or performing an inspection as part of the monitoring element of a firm's system of quality control.

**Repeat finding or deficiency (engagement reviews).** An engagement finding or deficiency that is the same as noted in the prior review. (Ref: par. .A26)

**Repeat finding, deficiency, or significant deficiency (system reviews).** A finding, deficiency, or significant deficiency identified during the current review that has the same systemic cause identified in the prior review's FFC forms or report. (Ref: par. .A27)

**Report Acceptance Body (RAB).** A group of individuals appointed by the committee who are delegated the report acceptance function on behalf of the committee.

**Report ratings (engagement reviews).** A peer review report can have one of three possible ratings: (Ref: par. .A28–.A29)

**Pass.** A report with a peer review rating of *pass* is issued when the review captain concludes that nothing came to the captain's attention that caused the captain to believe that the engagements submitted for review were not performed and reported on in conformity with the requirements of applicable professional standards in all material respects.

**Pass with deficiencies.** A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes at least one but not all the engagements submitted for review were nonconforming.

**Fail.** A report with a peer review rating of *fail* is issued when the review captain concludes all the engagements submitted for review were nonconforming.

**Report ratings (system reviews).** A peer review report can have one of three possible ratings: (Ref: par. .A28)

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

**Pass with deficiencies.** Except for the deficiencies described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

**Fail.** As a result of the significant deficiencies described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year ended was not suitably designed or complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

**Significant deficiency.** One or more matters in a system review that the reviewer has concluded create a situation in which the reviewed firm's system of quality control does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in all material respects. Significant deficiencies should be documented in a peer review report with a rating of *fail*.

**Staff.** Professionals, other than partners, including any specialists that the firm employs.

**Surprise engagement.** The engagement selection provided to the firm to mitigate the risk that the firm has not complied with the firm's policies and procedures related to timely completion of the assembly of final engagement files by engagement teams.

**Suspension.** Sanction imposed by an AE, AICPA staff, or the board for not cooperating that may prohibit a reviewer from being scheduled or performing reviews.

**Systemic cause (system reviews).** A condition in the firm's system of quality control that allowed noncompliance to occur and remain undetected.

## Requirements

### Defining Professional Requirements in the Standards

.12 Each PR-C section uses the following two categories of requirements, identified by specific terms, to describe the degree of responsibility it imposes on reviewers, firms, and administrators of the program:

- a. *Unconditional requirements.* The user must comply with an unconditional requirement in all cases in which such a requirement is relevant. The word "must" is used to indicate an unconditional requirement.
- b. *Presumptively mandatory requirements.* The user must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant, except in rare

circumstances discussed in paragraph .16. The word “should” is used to indicate a presumptively mandatory requirement.

### **Complying With Relevant Requirements**

**.13** Reviewers, firms, and administrators of the program should comply with all applicable sections of the standards. (Ref: par. .A30)

**.14** Reviewers, firms, and administrators of the program should understand the entire text of a section of the standards, including its application and other explanatory material, to understand its objectives and apply its requirements properly.

### **Departure From a Relevant Requirement**

**.15** In rare circumstances, the user may judge it necessary to depart from a relevant presumptively mandatory requirement. In such circumstances, the user should perform alternative procedures to achieve the objective. The user should consult with AICPA staff or the AE prior to departing from a relevant requirement. (Ref: par. .A31)

### **Interpretive Peer Review Publications**

**.16** Reviewers, firms, and administrators of the program should consider applicable interpretive publications in the performance of peer reviews. (Ref: par. .A32)

### **Other Peer Review Publications**

**.17** In applying the peer review guidance included in an other peer review publication, the user should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the peer review. (Ref: par. .A33)

### **Confidentiality**

**.18** A peer review should be conducted in compliance with the confidentiality requirements set forth in the "[Confidential Client Information Rule](#)" (ET sec. 1.700.001)<sup>1</sup> and its interpretations.

**.19** Confidential information should be disclosed only as required by law, or in accordance with sections 200 and 400, (Ref: par. .A34)

- a. to anyone not involved in performing the review,
- b. to anyone not administering or carrying out the program, or
- c. for use in any way not related to meeting the objectives of the standards.

### **Ethical Requirements Relating to Peer Review**

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<sup>1</sup> All ET sections can be found in AICPA *Professional Standards*.



**.20** Enrolled firms, reviewing firms, and individual CPAs within the administering entities should comply with relevant ethical requirements. If circumstances come to the firm or reviewer's attention that bring into question whether independence was impaired, the AE or AICPA staff should be consulted. (Ref: par. .A35–.A38)

### **Professional Skepticism and Professional Judgment**

**.21** Professional skepticism and professional judgment should be used throughout a peer review.

### **Timing of Peer Reviews**

**.22** Firms enrolled in the program, in accordance with paragraph .03, should have a peer review, once every three years, of their accounting and auditing practice that covers a one-year period (peer review year). (Ref: par. .A39–.A40)

**.23** A firm should enroll in the program no later than the date the firm issues the report on its first engagement within the scope of the standards (enrollment date).

**.24** The firm should consult with the peer reviewer to determine its initial peer review year. The AE should be consulted when the peer review year is not the 12-month period after the report date of the initial engagement. The following should be considered to determine the peer review year: (Ref: par. .A41)

- a. The firm's practice
- b. The year-ends of the firm's engagements
- c. The report dates of the firm's engagements
- d. The number and type of engagements to be encompassed in the review
- e. The requirements by any other organization for the firm to have a peer review (Ref: par. .A42)

**.25** The firm's initial peer review due date should be within 18 months after the firm issues the report on its first engagement within the scope of the standards.

**.26** If the firm fails to enroll by the due date described in paragraph .25, the initial peer review due date should be 90 days from the date the firm enrolled in the program.

**.27** The subsequent peer review due date should be no more than 42 months from the previous peer review year-end. (Ref: par. .A43)

**.28** A firm should have prior approval by the AE to change its peer review year-end. A change in peer review year-end will be applicable to current and subsequent peer reviews. (Ref: par. .A44)

**.29** A firm should have prior approval by the AE to extend its peer review due date and the extension should be applicable only to the current peer review. (Ref: par. .A45)

**.30** A firm should ensure that any change in the review due date or year-end approved by the AE is communicated to and recognized by any other organizations requiring it to have a peer review. (Ref: par. .A42)

**.31** If a firm, having previously represented that it has no engagements within the scope of the standards, is enrolled in the program and (a) performs its first engagement within the scope of the standards or (b) performs its first engagement that would require a system review, the due date should be 18 months from that engagement's year-end (18 months from the report date if it is a financial forecast, projection, or agreed-upon procedures engagement).

**.32** If a firm fails to immediately notify the AE when it performs an engagement that meets the requirements of paragraph .31b, then the firm should participate in a system review with a peer review year that covers the engagement.

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

### **Administration**

**.34** 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; one of the board's committees, such as the National Peer Review Committee (National PRC); or other entity (collectively hereinafter referred to as an "administering entity" or "AE") approved by the board to administer peer reviews. (Ref: par. .A46)

**.35** Firms are required to have their reviews administered by the National PRC if they meet any of the following criteria (Ref: par. .A47):

- a. The firm performed or "played a substantial role in" (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year.
- b. The firm is a provider of quality control materials (QCM) (or is affiliated with a provider of QCM) that are used by firms that it peer reviews.

### **Peer Review Documentation and Retention Policy**

**.36** The reviewer should prepare peer review documentation with enough detail to enable an experienced peer reviewer having no previous connection with the review to understand the following:

- a. The documentation's purpose, source, and the conclusions reached
- b. Evidence of the work performed
- c. That the reviewer complied with these standards

- d. That the basis for the reviewer's conclusions is supported

**.37** Reviewers and technical reviewers should use the materials and checklists developed and issued by the board to meet the requirements of the program.

**.38** If the reviewer determines additional materials and checklists not issued by the board are needed to complete a review, the other materials and checklists must

- a. include the same elements and be more comprehensive than those versions issued by the board and
- b. be approved by the AE prior to commencement of the review.

**.39** Peer review documentation submitted to the AE should be in electronic format as prescribed by the AICPA.

**.40** Peer review documentation should not be retained by the reviewer or AE for an extended period after the peer review's completion, except for certain documents that are maintained until the subsequent peer review's acceptance and completion. Refer to section 200, *General Principles and Responsibilities for Reviewers*, and section 400, *General Principles and Administration Responsibilities*, for specific document-retention requirements for reviewers and administrators, respectively. (Ref: par. .A48–.A49)

## **Oversight**

**.41** Peer reviews, reviewed firms, and reviewers are subject to oversight by the AE and the board to ensure compliance with and consistent application of the standards. (Ref: par. .A50)

**.42** Administering entities are subject to oversight by the board and other bodies agreed upon by the board.

## **Disagreements**

**.43** If a disagreement arises between any parties to a peer review that cannot be resolved through other means, the disagreeing parties should consult with their AE, and if necessary, request that a panel of the AE's peer review committee members resolve the disagreement. The panel must reach a decision to resolve the disagreement. (Ref: par. .06 of section 400)

**.44** If any of the disagreeing parties believe a review of the panel's decision is warranted, they should request an appeal by writing to the board and explaining the reasons a review of the panel's decision is warranted. A panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established.

## **Individual Enrollment When a Firm Is Without CPA-Majority Ownership**

**.45** An individual CPA should enroll if the CPA (Ref: par. .A5 and .A51)

- a. practices in a firm not eligible to enroll (Ref: par. .A52) and
- b. performs compilations of financial statements in accordance with the SSARS.

**.46** An individual enrolled in the program should have an engagement review in accordance with these standards. Peer review documentation should be tailored to reflect that an individual, not a firm, is being peer reviewed. (Ref: par. .A53)

**.47** If an individual enrolled in the program meets the reviewer qualifications in paragraph .05 of section 200, the individual would be the reviewer (not the firm ineligible to enroll) and that fact should be made evident throughout the review.

### **Associations of CPA Firms**

**.48** For a member firm of an association of CPA firms (association) to conduct peer reviews of another association member firm enrolled in the program, in addition to the peer review independence requirements, the association and its member firms must meet all 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. (Ref: par. .A54)
- 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. (Ref: par. .A55)
- c. Referral or participating work among member firms is arranged directly by the firms involved.

**.49** For a member firm of an association to conduct a peer review of another association member firm enrolled in the program, the association must submit an Association Information Form (AIF) to, and obtain approval from, the board or its designee prior to any aspect of the review being planned, scheduled, or performed. All review teams must still be approved by the AE. (Ref: par. .A56)

**.50** In an association-formed review team, the captain should be from an association member firm.

**.51** An association-formed review should be performed in accordance with these standards. Additionally, the peer review report should be issued on the letterhead of and signed by the captain's firm (not the association).

**.52** An association of CPA firms cannot be a network, as defined by the "Network and Network Firms" interpretation (ET sec. 1.220.010) under the "Independence Rule," and conduct peer reviews of another association member firm. A network firm is not independent with respect to other firms in the same network.

**.53** Whether an association is a network and whether an entity is a network firm should be applied consistently by all members of the association.

## **Application and Other Explanatory Material**

### **Scope of This Section (Ref: par. .01)**

**.A1** A reference to a *firm* or *firms* includes individuals enrolled in the program.

**.A2** The program may not be administered by any entity without written permission from the board.

**.A3** For purposes of the program, the board determines which engagements meet the criteria to be considered subject to PCAOB permanent inspection. Currently, this includes audits of SEC issuers and the audits and related compliance and exemption engagements for broker-dealers registered with the SEC or dually registered with both the SEC and Commodity Futures Trading Commission (CFTC). Securities Investor Protection Corporation (SIPC) agreed-upon procedures engagements for SEC registered broker-dealers and audits of broker-dealers only registered with the CFTC are in the scope of the program.

### **Authorization of the Program (Ref: par. .03 and .04)**

**.A4** A firm does not need any AICPA members to enroll in the program.

**.A5** If authorized by Council, an individual member may enroll in the program if the firm is not eligible to enroll in the program. A CPA practicing in such a firm may enroll in certain circumstances as outlined in paragraphs .45–.47.

**.A6** Specifically, these requirements are located in AICPA BL section 220, *Requirements for Admission to Membership*, and BL section 230, *Requirements for Retention of Membership*, (BL sec. 2.2.3 and 2.3.4, respectively)<sup>2</sup> and the "Form of Organization and Name Rule" (ET sec. 1.800.001) of the AICPA Code of Professional Conduct.

**.A7** A firm that performs only preparation engagements under the SSARs may be required to enroll in the program by a regulatory body, for example, for licensing.

### **Relationship of Peer Review With Quality Control Standards (Ref: par. .05)**

**.A8** Quality control systems, policies, and procedures are the responsibility of the firm in conducting its accounting and auditing practice. Under QC section 10, *A Firm's System of Quality Control*,<sup>3</sup> the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that

- a. the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and

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<sup>2</sup> All AICPA bylaw sections can be found in *AICPA Professional Standards*.

<sup>3</sup> All QC sections can be found in *AICPA Professional Standards*.

b. reports issued by the firm are appropriate in the circumstances.

**.A9** The nature and extent of a firm's system of quality control depend on factors such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations.

### **Objectives (Ref: par. .07, .09, and .10)**

**.A10** The objective of the program is achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice.

**.11** The type of peer review is determined based on the engagements performed as the firm's highest level of service, as shown in the following chart.

<b>Engagements As the Firm's Highest Level of Service</b>	<b>System Review</b>	<b>Engagement Review</b>
<b><i>Statements on Auditing Standards (SASs)</i></b>		
Engagements	X	
<b><i>Government Auditing Standards (GAS)</i></b>		
Financial audits	X	
Attestation engagements (examination, review, or agreed-upon procedures under GAS)	X	
Performance audits	X	
<b><i>Statements on Standards for Attestation Engagements (SSAEs)</i></b>		
Examination engagements	X	
Review engagements		X
Agreed-upon procedures engagements		X
<b><i>PCAOB Standards</i></b>		
Audits	X	
<b><i>Statements on Standards for Accounting and Review Services (SSARSs)</i></b>		

Engagements As the Firm's Highest Level of Service	System Review	Engagement Review
Reviews of financial statements		X
Compilation engagements		X
Preparation of financial statements engagements		X

If a firm is required to have a system review, all the engagements listed in the preceding table would be subject to selection for review based on periods ending during the year under review, except for financial forecasts, projections, and agreed-upon procedures engagements. Financial forecasts, projections, and agreed-upon procedures engagements with accountant's report dates during the year under review would be subject to selection.

**.A12** The International Auditing and Assurance Standards Board (IAASB) is not currently recognized by AICPA Council to promulgate technical standards (nor is the International Public Sector Accounting Standards Board); therefore, compliance with auditing, review, or other assurance or related services standards issued by the IAASB, or any other audit or assurance standards outside of the United States, is not included in the scope of peer review.

## Definitions (Ref: par. .11)

**.A13** Implementation plans do not affect the acceptance or completion date of a review.

**.A14** The committee or RAB may require revisions to peer review documents. In those situations, the review is not considered accepted until the revisions have been made to the satisfaction of the committee or RAB (or its designee).

**.A15** Regulatory bodies may include, but are not limited to, the following:

- a.* The AICPA or state CPA society ethics committees
- b.* The AICPA Joint Trial Board
- c.* State boards of accountancy
- d.* The SEC
- e.* The PCAOB
- f.* The Department of Labor

g. The Department of Health and Human Services

h. Other governmental agencies or other organizations that have the authority to regulate accountants (in connection with engagements within the firm's accounting and auditing practice)

**.A16** Indications of when a reviewer has learned information that affects the results of the review include, but are not limited to, the following examples:

- a. A reviewer identifies a design deficiency in the firm's system of quality control.
- b. A reviewer learns about the firm's noncompliance with state board of accountancy licensing requirements.

**.A17** An AE may have more restrictive consent agenda criteria or may choose not to utilize a consent agenda.

**.A18** Requests to waive corrective actions that are specific and easy to understand include, for example, when a firm is asked to join an Audit Quality Center but represents it has given up those types of engagements.

**.A19** Requests to extend due dates where there is no reason to believe the extension should not or would not be approved by the RAB include situations such as a request for a 30-day extension after being granted a 90-day extension because the managing partner has been in the hospital.

**.A20** Firm and outside parties may utilize guidance in section 420, appendix A, "Guidance for Outside Parties Engaged to Assist Firms in Completing Corrective Actions and Implementation Plans," to assist in completing corrective actions and implementation plans.

**.A21** "In all material respects" is a matter of professional judgment and is entity-specific based on size or nature, or both. Materiality is described as follows: misstatements, including omissions, are material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements.

**.A22** More than one incident of noncompliance may still be considered isolated if the reviewer is able to conclude there is no systemic cause and such instances of noncompliance are insignificant to the reviewer's evaluation of the firm's system of quality control.

**.A23** The board may appoint subcommittees and task forces to assist the board in carrying out its responsibilities. The work of the subcommittees and task forces is subject to review by the board. For example, the OTF may be delegated the responsibility to issue reviewer performance deficiency letters and the evaluation of reviewer removal recommendations.



**.A24** Refer to section 430, *Reviewer Monitoring and Performance*, for examples of reviewer performance findings and deficiencies that may be communicated to the reviewer on a performance feedback form.

**.A25** A performance deficiency letter can be issued for a pattern of reviewer performance findings, reviewer performance deficiencies, egregious reviewer performance, or significant failures to timely submit documents when there is no evidence of improvement after the suspension for timeliness is lifted.

**.A26** As an example, omitting the exact same disclosure in an engagement selected in the previous peer review and in an engagement selected in the current peer review would constitute a repeat finding or deficiency. Omitting one disclosure in an engagement selected in the previous peer review and omitting an entirely different disclosure in an engagement selected in the current peer review would not constitute a repeat finding or deficiency.

**.A27** The words used to describe the systemic cause are not indicative of whether it is a repeat finding, deficiency, or significant deficiency, and professional judgment will be used to conclude whether the systemic cause is repeated.

**.A28** In the event of a scope limitation, a report with the applicable peer review rating (with a scope limitation) is issued.

**.A29** The review captain should not expand the scope beyond the original selection of engagements in an effort to change the conclusion from a peer review rating of *fail*.

### **Complying With Relevant Requirements (Ref: par. .13)**

**.A30** The board may, at its discretion, modify the standards and related guidance without an exposure period if the circumstances warrant such action. In these circumstances, the board will discuss such modifications during meetings open to the public and will communicate any recommended courses of action to firms, reviewers, and AEs on a timely basis.

### **Departure From a Relevant Requirement (Ref: par. .15)**

**.A31** The need for a user to depart from a relevant, presumptively mandatory requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in that specific circumstance, the required procedure would be ineffective in achieving the objective.

### **Interpretive Peer Review Publications (Ref: par. .16)**

**.A32** Interpretive publications are not standards. Interpretive publications are recommendations on the application of the standards in specific circumstances. An interpretive publication is issued under the authority of the board only after all members of the board have been provided an opportunity to consider and comment on whether the proposed interpretive publication is

consistent with the standards. Examples of interpretive publications are application and other explanatory material, appendixes, and exhibits to the standards, which are included within these PR-C sections.

### **Other Peer Review Publications (Ref: par. .17)**

**.A33** Other peer review publications, such as reviewer alert articles, are nonauthoritative; however, they may help the user understand and apply the standards.

### **Confidentiality (Ref: par. .18–.19)**

**.A34** Information concerning the reviewed firm or any of its clients or personnel that is obtained through the review is confidential.

### **Ethical Requirements Relating to Peer Review (Ref: par. .20)**

**.A35** Ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.

**.A36** The AICPA Code of Professional Conduct establishes the fundamental principles of professional ethics, which include the following:

- a.* Responsibilities
- b.* The public interest
- c.* Integrity
- d.* Objectivity and independence
- e.* Due care
- f.* Scope and nature of services

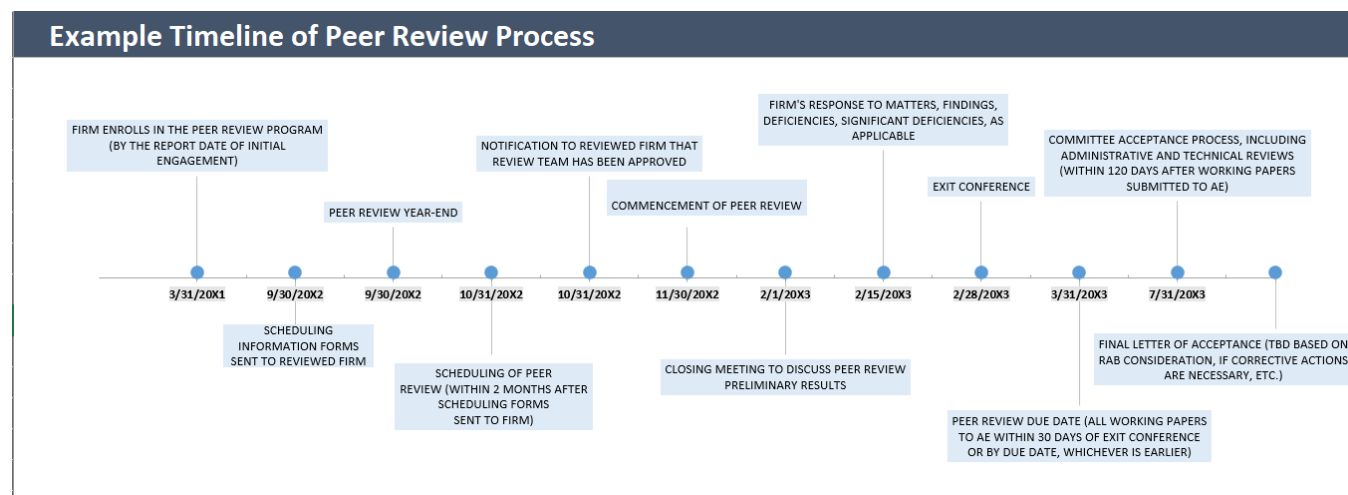
**.A37** In the case of a peer review, it is in the public interest and, therefore, required by this section that the reviewer and any other individuals who participate on the peer review be independent of the reviewed firm. The concept of independence refers to both independence in fact and independence in appearance. *Independence* encompasses an impartiality that recognizes an obligation for fairness not only to the reviewed firm but also to those who may use the peer review report. *Integrity* requires the reviewer to be honest and candid within the constraints of the reviewed firm's confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. *Objectivity* is a state of mind and a quality that lends value to a reviewer's services. The principle of objectivity imposes the obligation to be impartial,

intellectually honest, and free of conflicts of interest. Guidance on threats to independence is set forth in the AICPA's "Conceptual Framework for Independence" (ET sec. 1.210.010).

**.A38** Due care, as addressed by the "[Due Care](#)" principle (ET sec. 0.300.060), requires all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner.

### Timing of Peer Reviews (Ref: par. .22, .24, .27, .28, and .29)

**.A39** The following timeline provides an example of various steps in the peer review process.



**.A40** Ordinarily, a peer review is performed within three to five months following the peer review year-end.

**.A41** Ordinarily, the initial peer review year is the 12-month period after the report date of the initial engagement performed by the firm within the scope of the standards.

**.A42** Organizations that may require a peer review include, but are not limited to, state boards of accountancy, the Government Accountability Office, and other regulators.

**.A43** Ordinarily, a firm should maintain the same peer review year-end for subsequent reviews.

**.A44** AEs will consider factors, including but not limited to, those described in paragraph .24 when a firm has requested a change in its peer review year. AEs will not approve a change in peer review year that would have a public interest concern, such as when a must-select engagement would be excluded from the scope of the peer review.

**.A45** An AE will ordinarily approve a review due date extension of three months or less. If a firm's peer review is subject to oversight, the AE may approve an extension of up to six months.

### Administration (Ref: par. .34 and .35)

**.A46** AEs approved by the board are authorized to establish dues or registration fees within their individual jurisdictions to fund the administration of the program.

**.A47** Firms that are not required to have their review administered by the National PRC may choose to do so.

#### **Peer Review Documentation and Retention Policy (Ref: par. .36 and .40)**

**.A48** The AICPA or an AE may retain peer review documentation beyond the retention requirements if such documentation is needed to comply with peer review standards and guidance. For example, the peer review report may be retained in order to track the number of consecutive non-pass peer review reports a firm has received.

**.A49** The AICPA may retain data derived from peer review documentation beyond the retention requirements to monitor trends in peer reviews, facilitate research, and otherwise promote quality in the accounting and auditing services provided by CPA firms. Any such data provided to others will exclude firm-identifying information (for example, firm name, location, and employer identification number) that could link the data back to a firm, firm's client, review, or reviewer. This data may be provided to parties outside of the AICPA only with the firm's consent. The AICPA will describe the nature of the data that may be shared and the reason behind the request when asking for consent from firms.

#### **Oversight (Ref: par. .41–.42)**

**.A50** The objectives of oversight are to enhance quality in accounting and auditing by ensuring compliance with and consistent application of the standards throughout the program. The board may appoint other individuals or bodies to perform oversight at its discretion.

#### **Individual Enrollment When a Firm Is Without CPA-Majority Ownership (Ref: par. .45–.47)**

**.A51** An individual enrolled in the program is provided equivalent fair procedures related to hearings and appeals established by the board as enrolled firms.

**.A52** 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 appendix B, "Council Resolution Concerning the Form of Organization and Name Rule," of the Code of Professional Conduct.

**.A53** An individual enrolled in the program may choose to have a system review.

#### **Associations of CPA Firms (Ref: par. .49–.50)**

**.A54** 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.

**.A55** 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.

**.A56** 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. The National PRC is currently designated by the board to consider all AIFs for approval, regardless of whether an association has any firms whose peer reviews are administered by the National PRC.

## **PR-C Section 200, *General Principles and Responsibilities for Reviewers***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains general principles and responsibilities for reviewers. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*.

#### **Effective Date**

**.02** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objective**

**.03** The objective of the reviewer is to perform a peer review in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board (the board) of the American Institute of Certified Public Accountants to enhance the effectiveness of and contribute to the quality of our profession.

### **Definitions**

**.04** A list of terms applicable to this section are defined in paragraph .11 of section 100, *Concepts Common to All Peer Reviews*.

### **Requirements**

#### **Reviewer Qualifications**

**.05** To qualify as a reviewer, CPAs should consider whether their day-to-day involvement in their firm's accounting and auditing practice is sufficiently comprehensive to enable them to perform a peer review with professional expertise. At a minimum, a reviewer should meet the following qualifications: (Ref: par. .A6)

- a.* Be a member of the AICPA in good standing, licensed to practice as a CPA, and employed by or an owner of a firm enrolled in the program. (Ref: par. .A1)
- b.* Be in public practice as a partner, manager, or person with equivalent responsibilities in the accounting or auditing practice or carrying out a quality control function in the CPA's firm. (Ref: par. .A2)

- c. Have current practice experience by performing or supervising accounting or auditing engagements in the CPA's firm or carrying out a quality control function in the firm, with reports dated within the last 18 months. (Ref: par. .A3)
- d. Have spent the last five years in the practice of public accounting in the accounting or auditing function.
- e. Be employed by or be the owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review. (The report should have been accepted timely.) (Ref: par. .A4–.A5)
- f. Possess current knowledge of professional standards and experience related to the kind of practice and the industries of the engagements to be reviewed. (Ref: par. .A7)
- g. Obtain at least 48 hours of AICPA-required continuing professional education (CPE) every 3 years in subjects relating to accounting, auditing, and quality control with a minimum of 8 hours in any 1 year.
- h. Be free of restrictions from regulatory or governmental bodies on the CPA's ability to practice public accounting. (Ref: par. .A8)
- i. Provide qualifications and experience via a reviewer resume.

**.06** Reviewers should not commence, continue to perform, or participate in a peer review if they do not possess all necessary qualifications, and should refrain from these activities until it has been determined they are qualified according to paragraph .05. (Ref: par. .A9 and .A10)

**.07** Reviewers should notify their administering entity (AE) or AICPA staff when they do not meet the qualifications in paragraph .05. If an AE or AICPA staff contact the reviewer to validate the reviewer's qualifications, the reviewer should respond to the communication within the specified time. (Ref: par. .A11)

**.08** In order to be qualified as captain for a peer review of a firm whose review is required to be administered by the National Peer Review Committee (PRC), a captain should currently be employed by or be an owner of a firm whose most recent review was administered by the National PRC. (Ref: par. .A12–.A13)

#### *Reviewer Allegations, Investigations, Limitations, or Restrictions*

**.09** Reviewers and reviewing firms should notify the relevant AE of communications from regulatory, monitoring, or enforcement bodies in the conduct of engagements in a firm's accounting and auditing practice performed by the reviewer. Notification should happen prior to being scheduled to perform a peer review or immediately, if already scheduled to perform a peer review. (Ref: par. .A14–.A15)

**.10** Reviewers and reviewing firms should notify AICPA staff and all relevant AEs of any limitations or restrictions on the reviewer's or reviewing firm's ability to practice or perform peer reviews. Notification should happen prior to being scheduled to perform a peer review or immediately, if already scheduled to perform a peer review. (Ref: par. .A16–.A18)

**.11** A reviewer does not meet the required qualifications described in paragraph .05 if the reviewer's ability to practice public accounting or perform peer reviews has been restricted by a

regulatory, monitoring, or enforcement body, beginning on the date that the reviewer is notified of the restriction and ending on the date that the restriction has been removed.

**.12** If a limited restriction is imposed on a reviewer, the extent of the limited restriction should determine whether the reviewer still meets the qualifications. (Ref: par. .A19)

#### *Reviewer Resume*

**.13** Reviewer resumes should be updated at least annually to accurately reflect reviewer qualifications and experience. (Ref: par. .A20)

**.14** The reviewer's resume should provide the following information for the AE to determine if the reviewer has current or recent experience by level of service, engagement type, and industry: (Ref: par. .A21 and .A22)

- a. Whether the reviewer was performing, supervising, or carrying out a quality control function
- b. The date of the last report for the engagement the reviewer was involved in
- c. The approximate number of engagements the reviewer was involved in
- d. Whether the reviewer currently meets relevant industry-specific educational requirements
- e. Whether experience was obtained from the reviewer's firm or another firm (Ref: par. .A23)

**.15** The reviewer resume should communicate if the reviewer, the reviewer's firm, or a firm the reviewer has obtained industry experience from has received communications relating to allegations or investigations or has been restricted.

#### **Ethical Requirements Relating to a Peer Review**

**.16** The reviewer must be independent from the reviewed firm. The reviewer's independence would be considered impaired in the following circumstances:

- a. A reviewer or a reviewer's firm participates in a reciprocal peer review. (Ref: par. .A24)
- b. A reviewer who owns securities or has an interest in a reviewed firm's client reviews an engagement of that client.
- c. A reviewer who was directly involved in the development, maintenance, or distribution of the reviewed firm's quality control materials; reports to those who were directly responsible for the development, maintenance, or distribution of the materials; or receives more than a *de minimus* amount of revenues or other monies generated by the sale of the materials, reviews an engagement performed and reported on using those materials.
- d. Fees for any products or services provided or shared between firms are material to any party to the peer review. (Ref: par. .A25)



- e. Products or services provided to or shared by the reviewed firm are an integral part of the reviewed firm's system of quality control. (Ref: par. .A26–.A27)
- f. The reviewing firm performed the monitoring of the reviewed firm's accounting and auditing practice, consulting review, quality control document review, preliminary quality control procedures review, or pre- or post-issuance engagement reviews for the year immediately preceding or during the peer review year.

**.17** The effect on independence of family and other relationships and the possible resulting loss of the appearance of independence should be considered when assigning reviewers to engagements.

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

### **Performing a Peer Review**

**.19** Before agreeing to perform a peer review, a reviewer should do the following:

- a. Obtain and consider information about the firm to be reviewed, including size, nature of practice, industry specializations, and levels of service. (Ref: par. .A28)
- b. Assess the reviewer's own capability and availability to perform the peer review.
- c. Consider the review due date to account for adequate time to assess appropriate responses. (Ref: par. .A29)
- d. Consider the need for additional reviewers with appropriate levels of expertise and experience to perform the review.
- e. Consider the need for individuals with expertise in specialized areas to assist in a consulting capacity. (Ref: par. .A30)

**.20** Reviewers should not have contact with any client of the reviewed firm in connection with the peer review without prior approval of the firm and client.

### *Reviewed Firm Acquisition or Divestiture*

**.21** If a firm has had an acquisition of another practice or a portion thereof or a divestiture of a significant portion of its practice during or subsequent to its peer review year, the reviewer or the reviewed firm should consult with the AE and AICPA staff prior to the commencement of the review to consider the appropriate scope of the review or other actions that should be taken. (Ref: par. .A31)

### *Creating a Review Team*

**.22** A captain should assemble a review team of one or more individuals depending on the size and nature of the reviewed firm's practice and other factors.

**.23** A captain should ensure that all team members possess the necessary qualifications and competencies to perform assigned responsibilities and that team members are adequately supervised.

**.24** All members of the review team should be approved by the AE prior to the commencement of the peer review. (Ref: par. .A32)

### *Obtaining Written Representations*

**.25** The captain should request written representations from members of management of the firm whom the captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. (Ref: par. .A33–.A34)

**.26** The written representations should be in the form of a representation letter on firm letterhead, addressed to the captain, and signed by a member of management, as described in paragraph .26, as of the date of the peer review report. (Ref: par. .A35)

**.27** If a representation made by management is contradicted by other information obtained, the captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.

### **Reviewer's Performance and Cooperation**

**.28** The captain should do the following:

- a.* Supervise, perform, and report on the review in accordance with the standards.
- b.* Accept responsibility for the work of team members, including specialists. (Ref: par. .A37–.A38)
- c.* Communicate the review results to the reviewed firm and to the AE.
- d.* Ensure that peer review documentation is complete and submitted to the AE on a timely basis. (Ref: par. .A36)

**.29** If a reviewer does not cooperate by performing the review in a timely and professional manner in accordance with the requirements of the standards, the AE or AICPA staff should communicate the failure to the reviewer, and it may result in a suspension or removal from the list of qualified peer reviewers. The reviewer should respond to the communication within the specified time. (Ref: par. .A39–.A40)

**.30** Peer review documentation should be retained by the review team until 120 days after the peer review is completed.

*Reviewer Performance Findings and Deficiencies*

**.31** A reviewer's performance is evaluated by the committee or Report Acceptance Body (RAB), AICPA staff, and the board. If a reviewer's work exhibits performance findings or deficiencies, the reviewer should correct areas of noncompliance that are identified by the committee or RAB on a reviewer performance feedback form. (Ref: par. .A41)

**.32** If a reviewer notifies an AE that performance findings or deficiencies are present on reviews that the reviewer submitted, and those reviews have not yet been subject to technical review, the reviewer should make the appropriate corrections on those reviews. If the reviewer corrects the noncompliance, then the reviewer should not receive a reviewer performance feedback form.

**.33** If a reviewer exhibits a pattern of performance findings or has more than one reviewer performance deficiency, the committee or board should consider whether it is appropriate to issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions. Those actions are applicable to the reviewer's participation in the performance of any peer review and, therefore, are recognized by all AEs. (Ref: par. .A42)

**.34** The committee or board that issued the performance deficiency letter will determine when a corrective action is no longer required. To assist the committee or board in making this determination, the reviewer should provide evidence that supports the reviewer's remediation of the related performance deficiency for each corrective action to the AE or board. (Ref: par. .A43)

**.35** If a reviewer fails to correct reviewer performance deficiencies after a corrective action has been required, refuses to cooperate with the committee or board (for example, by not signing the performance deficiency letter within 30 days), or has committed egregious acts in the performance of a peer review, the committee should recommend to the board that the reviewer be prohibited from performing peer reviews in the future. (Ref: par. .A41, .A44, and .A45)

*Reviewer Appeals*

**.36** A reviewer should provide a written appeal to the board, within 30 days of receipt of the communication, explaining why the reviewer believes the deficiencies, actions, or decisions are unwarranted if the reviewer disagrees with any of the following: (Ref: par. .A43)

- a.* Performance deficiencies communicated on a performance deficiency letter
- b.* Corrective actions required by the committee or board
- c.* Decisions related to being deemed ineligible to perform reviews
- d.* Other actions imposed on the reviewer by the committee or board

**.37** The corrective actions imposed by the committee or board should remain in effect on the reviewer during the appeals process and should remain in effect until the committee or board concludes otherwise.

**.38** If a reviewer's firm has experienced a natural disaster or other catastrophic event that directly affects its ability to comply with requirements of the standards, the reviewing firm should communicate this information to the reviewed firm and AE as soon as possible. Contacting the reviewed firm and the AE is especially important when the peer review has commenced but the reviewing firm has doubts about its ability to complete the review. In response to natural disasters and other catastrophic events, the board will evaluate the facts and circumstances and communicate recommended courses of action to administering entities. Refer to section 430, *Reviewer Monitoring and Performance*, for factors that the administering entity will consider when determining the best course of action.

## **Application and Other Explanatory Material**

### **Reviewer Qualifications (Ref: par. .05–.08)**

**.A1** CPA license mobility may not be recognized for peer review purposes in certain states. Therefore, the reviewing firm and reviewers may be required to obtain applicable licenses in the state licensing jurisdiction of the reviewed firm.

**.A2** A manager or person with equivalent 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.

**.A3** A reviewer who becomes employed by or an owner of a newly formed firm (or a firm that has not had a peer review) may continue to serve in the same capacity as a reviewer during an 18-month transition period, as long as the reviewer meets the other requirements in paragraph .05. The transition period begins with the earlier of the date of disassociation from the previous firm or the date the reviewer becomes employed by or an owner of a new firm. After the 18-month transition period, the reviewer's current experience is dependent on the practice composition of the new firm. A reviewer employed by or owner of a firm without any engagements subject to peer review, even if actively pursuing or with a signed engagement letter, does not meet current practice experience.

**.A4** The requirement of having received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review, that was accepted timely, is applicable to any firm through which a reviewer receives the necessary qualifications.

**.A5** The AE will determine if the report has been accepted timely.

**.A6** In rare circumstances, an exception may be approved by the AICPA prior to commencement of the peer review. The request must be made in writing and should thoroughly explain why the exception should be approved.

**.A7** Current knowledge may be obtained from on-the-job training, training courses, or a combination of the two.

**.A8** If a restriction is imposed on the reviewer's firm, the Oversight Task Force (OTF) will determine the impact to the individual's ability to qualify as a reviewer.

**.A9** When a reviewer does not meet the required qualifications, the reviewer may not participate in the performance of peer reviews or serve as a peer review committee or RAB member.

**.A10** If a reviewer performed a peer review while ineligible, the peer review committee of the AE may decide to perform oversight at the reviewer's expense or consider other appropriate measures. If the review has already been accepted, the committee may consider recalling the previously accepted peer review documents. This could put the reviewed firm in jeopardy of its practice unit or firm license in states where the firm is licensed.

**.A11** The specified time may be different based on the circumstances of the request. Refer to section 400, *General Principles and Administration Responsibilities*, for details related to an AE's ineligibility process.

**.A12** If a firm elects, but is not required, to have its peer review administered by the National PRC, the captain does not have to be employed by or be an owner of a firm whose most recent review was administered by the National PRC.

**.A13** For other requirements for a captain in a system review, see section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, and for other requirements of a captain in an engagement review see section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*.

*Reviewer Allegations, Investigations, Limitations, or Restrictions (Ref: par. .09–.10 and .12)*

**.A14** The receipt of communications relating to allegations or investigations does not automatically mean that a reviewer is ineligible to perform reviews. However, there may be situations in which the nature, significance, or pervasiveness of the alleged deficiencies or an existing preponderance of evidence would necessitate more immediate action in order to address the public interest. The AE's peer review committee will consider whether any action or oversight is appropriate. This decision may be appealed by the reviewer to the AE's peer review committee.

**.A15** If a reviewer fails to notify the relevant parties of communications of allegations or investigations, limitations or restrictions, or both, within the specified timing, the board may consider whether actions are warranted given the specific circumstances. Such actions may include, but are not limited to, the following:

- a. Oversight at the reviewer's expense
- b. Permanent removal from the list of qualified reviewers
- c. Referral of any AICPA members to the AICPA's Professional Ethics Division for violating the AICPA Code of Professional Conduct

**.A16** Limitations or restrictions may include, but are not limited to, the following:

- a. Constraint of scope or volume of accounting and auditing engagements
- b. Required periodic reporting to the regulatory body
- c. Pre-issuance reviews of engagements
- d. Additional peer review or professional education requirements

**.A17** If the restriction has been placed on the reviewer's firm or one or more of its offices, then the OTF will consider and investigate the specific circumstances, including how the restriction relates to the firm's accounting and auditing practice and personnel, to determine whether any of the individuals associated with the firm may serve as reviewers.

**.A18** The reviewer, reviewing firm, the AE, or AICPA staff may receive notification or knowledge of a limitation or restriction on a reviewer or reviewing firm when a review is in different stages (scheduling, commencement, fieldwork, acceptance, or completion, within the working paper retention period or not). In these circumstances, the board will consider various factors in determining whether the review should be rescheduled or oversighted, other additional procedures should be performed, or a new review should be performed.

**.A19** The OTF will assess whether the reviewer is qualified to perform any peer reviews or if the reviewer is restricted from reviewing specific industry or engagement types.

*Reviewer Resume (Ref: par. .13–.14)*

**.A20** To accurately reflect reviewer qualifications and experience, a reviewer may need to update their own reviewer resume more frequently than annually. Situations that may warrant more frequent updates include, but are not limited to, the following:

- a. The renewal timing of a reviewer's license
- b. Issuance of reports in new levels of service, engagement types, or industries
- c. A change in firm that the reviewer is employed by or owner of
- d. Peer review continuing education courses taken

**.A21** Current experience is performing, supervising, or carrying out a quality control function on an engagement with a report date within the last 18 months.

**.A22** Recent experience is having performed, supervised, or carried out a quality control function on an engagement in your firm within the last five years.

**.A23** A reviewer with current experience in an industry through a firm other than the firm the reviewer is employed by or is an owner of may be qualified to review engagements in that industry. At a minimum, the services performed for another firm should include a review of the financial statements and involvement in or review of the significant judgments and conclusions of the engagement team.

**Ethical Requirements Relating to a Peer Review (Ref: par. .16)**

**.A24** A firm may not perform a reciprocal peer review, that is, a review of the firm that performed its most recent review. The prohibition against reciprocal peer reviews also means that a reviewer may not serve on a review team carrying out a review of a firm whose personnel participated in the most recent review of that reviewer's firm.

**.A25** Examples of products or services include, but are not limited to,

- a. consultation;
- b. expenses, office facilities, or personnel; and
- c. quality control materials.

**.A26** To evaluate whether products or services provided or shared are an integral part of a firm's system of quality control, the reviewer and reviewed firm consider the following factors:

- a. The size of the impacted portion of the practice (Ref: par. .A28)
- b. The risk associated with the impacted portion of the practice (for example, must-select industries)
- c. The degree of the reviewed firm's reliance on the product or service provided or shared
- d. The significance of the product or service provided or shared

If the products or services provided or shared are quality control materials (QCM) that are an integral part of a firm's system of quality control, a QCM review under the Standards for Performing and Reporting on Peer Reviews,<sup>4</sup> or a QCM examination under the Statements on Standards for Attestation Engagements,<sup>5</sup> could be an appropriate safeguard to offset a potential independence impairment. However, the effectiveness of this safeguard will depend on many factors, such as those considered by peer reviewers in evaluating the reliability of QCM during a peer review, as described in section 210.

**.A27** The size of the impacted portion of the practice may be assessed by industry, level of service, or engagement hours.

### **Performing a Peer Review (Ref: par. .19)**

**.A28** Although a reviewer is testing compliance only with U.S. professional standards, the reviewer may inquire of the firm regarding the firm's understanding of professional guidance for reporting on statements for international use to assist in planning the review.

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<sup>4</sup> A QCM review is only available under the Standards for Performing and Reporting on Peer Reviews effective prior to May 1, 2022.

<sup>5</sup> The Statements on Standards for Attestation Engagements are codified in the AT-C sections in AICPA *Professional Standards*.

**.A29** Conducting the review 3–5 months after the firm’s peer review year-end ordinarily allows adequate time (30 days prior to the due date) for the assessment and submission of the peer review documents.

**.A30** If required by the nature of the reviewed firm’s practice, individuals with expertise in specialized areas may assist the review team in a consulting capacity. For example, computer specialists, statistical sampling specialists, actuaries, or experts in CPE may participate in certain segments of the review.

*Reviewed Firm Acquisition or Divestiture (Ref: par. .21)*

**.A31** A divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance with the system of quality control for reports issued under the firm’s name during that year.

*Creating a Review Team (Ref: par. .24)*

**.A32** Various factors, including the industries of the engagements of the firm, its size, whether or not the review is administered by the National PRC, and other factors related to the knowledge and experience of the members of the review team will be considered to determine if the team has the appropriate qualifications and capability to perform the review.

*Obtaining Written Representations (Ref: par. .25–.26)*

**.A33** Written representations are necessary information that describe matters significant to the peer review to assist in the planning, performance of, and reporting on the peer review. The specific representations are detailed in section 310, *General Principles and Responsibilities for Firms — System Reviews*, and section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*, as applicable.

**.A34** Members of management responsible for and knowledgeable about the required representations normally include the managing partner and partner in charge of the firm’s system of quality control.

**.A35** The representation letter is addressed to the captain because the captain is concerned with events occurring during the peer review period and through the date of the peer review report that may require an adjustment to the report or other peer review documents.

**Reviewer’s Performance and Cooperation (Ref: par. .28–.29)**

**.A36** Complete and timely peer review documentation relates to the initial submission of the report and review materials and to the timely completion of any additional actions necessary to complete the review. Additional actions may include completing any omitted documentation of the work performed on the review and resolving questions raised by the committee or technical reviewer accepting the review or by the board and AICPA staff.



**.A37** The captain will furnish instructions to the specialist regarding the manner in which materials and other notes relating to the review are to be accumulated to facilitate summarization of the reviewer's findings and conclusions. The specialist may be required to be available or participate in the exit conference.

**.A38** A specialist meeting criteria established by the AICPA, which are located on the AICPA webpage, may be approved as part of the review team, therefore assuming the responsibilities of a review team member.

**.A39** A reviewer may be suspended in the jurisdiction of the reviewer's local AE for failing to do any of the following (this list is not all-inclusive):

- a. Submit required peer review documents to the AE within the required specified time.
- b. Respond to or resolve issues identified by the technical reviewer, committee, or RAB within the specified time, including failure to respond to requests for additional procedures such as the expansion of scope on the review.
- c. Revise the report and finding for further consideration (FFC) forms, if applicable, as requested by the committee or RAB.
- d. Respond to requests for documents (in addition to those originally required to be submitted) or requests to complete documents.
- e. Submit peer review documents and other information for oversight.
- f. Update or verify a reviewer resume, as required.

**.A40** Failure to update or verify a reviewer resume may result in a national suspension. The reviewer may also be referred to the board for removal if the reviewer fails to submit documentation to support the experience reflected on the reviewer's resume.

*Reviewer Performance Findings and Deficiencies (Ref: par. .31, .33–.35)*

**.A41** If a committee recommends to the board that a reviewer be prohibited from performing peer reviews in the future or a reviewer appeals to the board in accordance with paragraph .36, the board will review and consider the recommendation or appeal in accordance with appendix A, "AICPA Peer Review Board Rules of Procedures for Reviewers."<sup>6</sup>

**.A42** Corrective actions may include, but are not limited to, the following:

- a. Oversight (at the reviewer's expense) until evidence of performance improves
- b. Consulting with the AE to discuss the planning and performance of the next review

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<sup>6</sup> "AICPA Peer Review Board Rules of Procedures for Reviewers" governs the adjudication of all matters that may lead to the removal of a reviewer from the national list of qualified reviewers or to the imposition of other sanctions by the board.

- c. Submitting all reports and appropriate documentation on all outstanding peer reviews before scheduling or performing another review
- d. Having pre-issuance reviews of the report and peer review documentation on future peer reviews by an individual acceptable to the committee
- e. Taking specified types of and amounts of CPE or training, or passing the related AICPA advanced certificate exam
- f. Removing or revising one or more resume codes until appropriate proof of experience and knowledge have been provided to the satisfaction of the committee

**.A43** Supporting evidence may include, but is not limited to, CPE certificates or documentation of performance improvement that includes a letter or report from an individual acceptable to the committee on the results of oversight or pre-issuance review of a peer review.

**.A44** Depending on the facts and circumstances, egregious acts by a reviewer include, but are not limited to, the following:

- a. Signing false documents
- b. Failure to perform a peer review board directive resulting from a hearing or review panel in a timely and professional manner
- c. Continuing to schedule or perform reviews after receipt of a required corrective action letter or settlement agreement from the AICPA Professional Ethics Division that indicates the reviewer is restricted from performing reviews
- d. Failure to notify an AE when there has been a restriction placed by a regulatory, monitoring, or enforcement body on the reviewer's ability to perform audit and attest engagements, and the reviewer continues to perform peer reviews
- e. Knowingly providing advice to a firm that is contradictory to the standards, such as informing the firm that it may distribute the peer review report prior to committee acceptance or omitting engagements from the scope of the review without the appropriate scope limitations or approvals in compliance with the guidance
- f. Use of confidential material obtained during the peer review to enhance the reviewer's own firm (such as a client listing)
- g. Failure to maintain qualifications or otherwise cooperate with the program (for example, not meeting licensure or regulatory requirements), leading the AE or firm to find another reviewer to complete the review and causing the firm harm

**.A45** The board may appoint a hearing panel to consider whether a reviewer should be prohibited from performing peer reviews in the future without recommendation from a committee.

***Appendix A — AICPA Peer Review Board Rules of Procedures for Reviewers***

**.A46** This appendix describes how hearing panels, ad hoc committees, and review panels are conducted. (Ref: par. .A41)

**[Note: This information is not being exposed for comment]**

## **PR-C Section 210, *General Principles and Responsibilities for Reviewers — System Reviews***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains performance and reporting requirements and application guidance for reviewers engaged to perform a system review. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*, and section 200, *General Principles and Responsibilities for Reviewers*. Additionally, reviewers should familiarize themselves with the firm requirements in section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*.

#### **Effective Date**

**.02** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objectives**

**.03** The objectives of the reviewer, in conducting a system review, are to do the following:

- a.* Obtain reasonable assurance that the reviewed firm's system of quality control for its accounting and auditing practice has been designed and complied with to provide the firm with reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in all material respects.
- b.* Report on the reviewed firm's system of quality control and communicate as required by the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board (the board) of the American Institute of Certified Public Accountants, in accordance with the reviewer's conclusions.

### **Definitions**

**.04** A list of terms applicable to this section are defined in paragraph .11 of section 100, *Concepts Common to All Peer Reviews*.

### **Requirements**

#### **Reviewer Qualifications for Team Captains**

**.05** In addition to meeting the requirements in section 200, a team captain must be a partner and complete initial and ongoing peer review training that meets the requirements established by the board. (Ref: par. .A1)

## **Reviewer Qualifications for Must-Select and Must-Cover Engagements**

**.06** In addition to the qualifications discussed in section 200, a reviewer of must-select engagements should meet the following criteria:

- a.* Have completed additional training focused on must-select engagements that meets the requirements of the board. (Ref: par. .A2)
- b.* Be presently involved in one of the following areas in the must-select engagements in the reviewer's firm:
  - i. Supervising or performing engagements
  - ii. Performing engagement quality control reviews on engagements
  - iii. Performing the inspection of must-select engagements as part of the firm's monitoring process
- c.* Be employed by or be an owner of a firm that is a member of the respective audit quality center, if applicable.

**.07** The additional training requirements in paragraphs .05 and .06 should be completed within one year prior to the commencement of the review of a must-select engagement.

**.08** For must-select and must-cover engagements, a reviewer should have experience in and knowledge about rules and regulations appropriate to the level of service applicable to the industries of the engagements the individual will be reviewing.

## **Planning**

**.09** The reviewer should perform planning procedures before selecting engagements for review.

**.10** The reviewer should obtain the following from the reviewed firm:

- a.* Information regarding each engagement in the firm's accounting and auditing practice with a period end date (report date for financial forecasts, financial projections, and agreed-upon procedures engagements) during the peer review year and issued by the commencement date to allow the reviewer to be able to identify
  - i. the level of service,
  - ii. the number of audit or accounting hours (actual, if available, or estimated),
  - iii. the engagement partner,
  - iv. the industry,
  - v. whether an engagement was an initial engagement,
  - vi. the office (if applicable), and
  - vii. whether an engagement was a must-select or must-cover engagement (if applicable) (Ref: par. .A22)
- b.* A list of firm personnel (Ref: par. .A3)
- c.* Responses to inquiries about the areas to be addressed in the written representations

- d. The firm's prior
  - i. peer review report,
  - ii. letter of response (if applicable),
  - iii. letter of acceptance,
  - iv. findings for further consideration (FFCs) (if applicable), and
  - v. representation letter
- e. The firm's quality control documentation (Ref: par. .A4)

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

**.11** The reviewer should obtain an understanding of the firm's accounting and auditing practice and system of quality control with respect to each of the quality control elements in accordance with quality control standards established by the AICPA.

**.12** The understanding obtained by the reviewer should include knowledge about

- a. the firm's organization,
- b. the composition of its accounting and auditing practice, and
- c. the design of the reviewed firm's quality control policies and procedures in accordance with quality control standards established by the AICPA.

**.13** To obtain an understanding of the firm's accounting and auditing practice and system of quality control, the reviewer should do the following:

- a. Inquire of appropriate management and other personnel.
- b. Review the firm's internal policies and procedures.
- c. Review the firm's quality control documentation.
- d. Inquire of the firm regarding elements of the system of quality control residing outside of the firm. (Ref: par. .A5)
- e. Complete the applicable quality control checklists.

**.14** When obtaining an understanding of the firm's system of quality control, the reviewer should evaluate the design of the firm's quality control policies and procedures in relation to the size and nature of the firm's accounting and auditing practice and determine if it is appropriately comprehensive and suitably designed.

*Understanding and Assessing Peer Review Risk*

**.15** The reviewer should use the understanding of the firm's accounting and auditing practice and system of quality control to assess inherent and control risks. The assessment of risk is qualitative and not quantitative.

**.16** To assess inherent risk, the reviewer should consider the following:

- a. Circumstances arising within the firm (Ref: par. .A6)

- b.* Circumstances outside the firm that affect the firm’s accounting and auditing clients (Ref: par. .A7)

**.17** To assess control risk, the reviewer should consider the results of the team captain’s assessment of the firm’s design of and compliance with quality control standards established by the AICPA. (Ref: par. .A10)

**.18** The reviewer should determine an acceptable level of detection risk based on the assessment of inherent and control risk. There is an inverse relationship between the level of detection risk and the level of inherent and control risk. (Ref: par. .A11)

**.19** The reviewer should document the assessment of peer review risk, which includes inherent risk, control risk, and detection risk, to provide a basis for engagement selections and the extent of procedures performed. (Ref: par. .A12).

**.20** To obtain reasonable assurance that the firm is complying with its quality control policies and procedures and applicable professional standards, the reviewer should review a reasonable cross section of the firm’s accounting and auditing engagements, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk. (Ref: par. .A13–.A14 and .A16)

**.21** There is a relationship between a reasonable cross section of the firm’s accounting and auditing practice and a risk-based approach to engagement selections. The reviewer should document in the risk assessment key decisions made when the engagement selections do not include

- a.* a level of service,
  - b.* public interest industries, (Ref: par. .A15)
  - c.* an engagement type within an industry, or
  - d.* industries where the firm performs a high volume of engagements. (Ref: par. .A16)

**.22** To support the reviewer’s selection of a reasonable cross section of the firm’s accounting and auditing practice, the reviewer should document in the risk assessment the reviewer’s consideration of industries that are represented in the firm’s “other audits” category.

**.23** If a reviewer significantly reduces the scope of procedures to be performed due to reliance on the firm’s monitoring procedures, the reviewer should inform the AE and AICPA staff during review planning and document the reviewer’s procedures in the Summary Review Memorandum. (Ref: par. .A17–.A18)

**.24** Engagements subject to selection for review should be those with periods ending during the year under review, except financial forecasts or projections and agreed-upon procedures engagements. For engagements without period ends, engagements with report dates during the year under review would be subject to selection. (Ref: par. .A19–.A20)

**.25** If an engagement selection has not been issued and there is not another engagement that can mitigate the risks associated with that engagement, the reviewer should assist the firm in determining if (Ref: par. .A21–.A22)

- a. the firm should request an extension in writing from the AE or
- b. the peer review should be performed, and the report should include a scope limitation as described in paragraph .29.

**.26** If a U.S. firm has offices in foreign countries or other “foreign jurisdictions,” the reviewer should consider whether those engagements should be subject to selection for review. If a report is issued on letterhead of an office in a foreign jurisdiction, the engagement should not be subject to selection for review. If the reviewer is unable to conclude whether an engagement should be subject to selection, the reviewer should consult with AICPA staff.

**.27** Specific types of engagements should be selected in a system review (must select). Appendix C, “Additional Requirements for Must-Select and Must-Cover Engagements,” contains the engagements included in these designations. (Ref: par. .A23)

**.28** To provide the firm assembly time, the reviewer should provide the selection of engagements to be reviewed to the reviewed firm no more than two weeks before the reviewer plans to begin reviewing the engagements. (Ref: par. .A24)

### *Scope Limitations*

**.29** It is presumed that all engagements and elements of the firm's system of quality control are subject to the peer review. In the rare situations in which there are exclusions or other limitations on the scope of the peer review, the reviewer should contact the AE and do the following:

- a. Assess the reasonableness of the reasons for exclusions
- b. Assess the effect on peer review risk assessments and scope
- c. Consider whether alternate procedures can be performed
- d. Determine the effect on the peer review and on the ability of the team captain to issue a peer review report

**.30** In the event of an exclusion, the reasons for the exclusion and the considerations detailed in paragraph .29 should be documented in the peer review working papers, which will be evaluated by the peer review committee as part of the peer review acceptance process.

### **Procedures Performed in Response to Assessment of Peer Review Risk**

**.31** To test the firm's compliance with its system of quality control and applicable professional standards, the reviewer should do the following:

- a. Review and evaluate the highest-risk areas on selected engagements, including accounting and auditing documentation, and reports. (Ref: par. .A25)



- b. Interview firm personnel at various levels to assess their understanding of, and compliance with, the firm's system of quality control.
- c. Review evidence to determine whether the firm has complied with its policies and procedures for each element of its system of quality control, which may include evidence since the previous peer review. (Ref: par. .A26)
- d. Review other evidence as appropriate. (Ref: par. .A27 and .A28)

**.32** The reviewer should determine if the firm and its personnel are in compliance with licensure requirements of the state boards of accountancy in the states in which the firm and its personnel practice for the peer review year through the date of the peer review report by verifying the following: (Ref: par. .A29)

- a. The *practice unit* license (firm license) in the state in which the practice unit is domiciled (that is, where the main office is located)
- b. A sample of individual (personnel) licenses in the state in which the individual primarily practices public accounting

**.33** If the reviewer deems it appropriate to test out-of-state licenses, the reviewer should expect the firm to provide documentation supporting its compliance with, or approach to, out-of-state licensing requirements. AICPA online CPA mobility provisions may be used to assist the reviewer in evaluating the firm's approach to firm and individual out-of-state licensing. (Ref: par. .A30)

**.34** If a firm does not possess the required applicable licenses to issue accounting and auditing engagements at any time during the peer review year through the date of the peer review report, the reviewer must document this as a finding on an FFC form.

**.35** If an individual with reporting responsibility does not have a current individual license to practice public accounting as required by the relevant state boards of accountancy, the reviewer should consider the engagements reported on by that individual as not performed or reported on in conformity with applicable professional standards in all material respects (nonconforming).

### *Evaluation of Engagements*

**.36** The reviewer should evaluate each engagement selected for review. The evaluation should include the following:

- a. Consideration of the financial statements or information and the related accountants' reports
- b. Review of accounting and audit documentation required by the applicable professional standards
- c. Consideration of information related to the engagement obtained through the peer review, including but not limited to engagement profile information, representations made by the firm, and other inquiries

**.37** When evaluating an audit engagement, the reviewer's procedures should include determining whether the reviewed firm has appropriately done the following: (Ref: par. .A31)

- a. Identified the significant risk areas on each audit engagement selected for the peer review
- b. Performed the necessary audit procedures related to the identified significant risk areas
- c. Documented the auditing procedures performed in these significant risk areas

**.38** For each engagement reviewed, the reviewer should use peer review checklists and questionnaires to determine whether

- a. the financial statements are fairly presented in accordance with generally accepted accounting principles (GAAP) in all material respects (or when applicable, with a special purpose framework) and
- b. the firm has performed and reported on the engagement in accordance with the requirements of the applicable professional standards in all material respects.

**.39** The reviewer should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards in all material respects (the engagement is nonconforming) and remind the firm of its obligation under professional standards to take appropriate actions. (Ref: par. .A32)

**.40** Team captains or AEs should not require firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. The team captain should provide information about risks in the firm's system of quality control (as identified through the review and testing of quality control policies and procedures).

**.41** At a minimum, a nonconforming engagement should be documented as a matter on a matter for further consideration (MFC) form.

#### *Expansion of Scope*

**.42** If the reviewer concludes that one or more engagements are nonconforming or there is a matter in one or more elements of the firm's system of quality control, the reviewer should document the consideration of whether the application of additional peer review procedures — an expansion of scope — is necessary. (Ref: par. .A33–.A34)

### **Identifying, Aggregating, and Evaluating Matters, Findings, Deficiencies, and Significant Deficiencies**

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

**.43** The reviewer should document a matter on an MFC form when the reviewer identifies one or more “no” answers to questions on peer review checklists that the reviewer concludes warrant

further consideration in the evaluation of a firm's system of quality control. Matters of a similar nature or systemic cause should be documented on one MFC form.

**.44** The reviewer should determine the relative importance of matters noted during the peer review, individually and in the aggregate. To determine if a matter should be elevated to a finding, deficiency, or significant deficiency, the reviewer should consider the matter's relative importance to the firm's system of quality control, taking into consideration the nature, systemic cause, pattern, or pervasiveness of it. (Ref: par. .A35–.A36)

#### *Determination of the Systemic Cause*

**.45** The reviewer should discuss and determine in concurrence with the firm the systemic cause of matters identified. (Ref: par. .A37–.A38)

**.46** If the firm underwent regulatory or governmental oversight or inspection, and similar issues were raised in both the regulatory or governmental oversight and in the peer review, the reviewer should further understand the systemic causes identified by the reviewed firm and consider whether there may be a systemic issue related to the design of or compliance with the system of quality control.

**.47** If the firm's response during the discussion and determination of the systemic cause of a matter is that the matter resulted from an "oversight" or was "isolated," the reviewer should investigate further. Refer to paragraphs. .48 and .49 under "Isolated Matters" for additional procedures the reviewer should perform.

#### *Isolated Matters*

**.48** If a matter is identified as isolated, the reviewer should follow the guidance in the sections "Expansion of Scope" and "Determination of the Systemic Cause." The reviewer should evaluate the pervasiveness of the issue, including expanding the scope if necessary, to provide evidence that the noncompliance with the firm's system of quality control was truly isolated. Reviewers should focus on the systemic cause of the matter when analyzing whether it is isolated. (Ref: par. .A41–.A42)

**.49** Reviewers should document their considerations regarding an isolated matter, including, at a minimum,

- a. the details of the matter noted;
- b. how the reviewer expanded scope, if applicable; and
- c. why the reviewer concluded the matter was isolated.

The documentation should provide enough information for the AE's peer review committee to determine whether the conclusion is appropriate. (Ref: par. .A43)

#### *Aggregating and Evaluating Matters*

**.50** To conclude on the results of a peer review, the reviewer should aggregate the matters documented during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures.

**.51** To determine the relative importance of matters, both individually and in the aggregate, to the firm's system of quality control, the reviewer should consider each matter's

- a. nature (characteristics),
- b. systemic cause (what went wrong with the firm's system of quality control),
- c. pattern (repeated), and
- d. pervasiveness (whether it is found throughout the firm's system of quality control).

When the firm has responded to matters, the team captain should consider if the response is appropriate and if the response indicates additional impacts to the peer review conclusions. Additionally, the reviewer should evaluate each matter in the context of the firm's size, organizational structure, and the nature of its practice. The relative importance of peer review matters to the firm's system of quality control will determine the impact to the peer review conclusions. In rare circumstances in which it is not practicable to identify the systemic cause, the team captain should document the reason or reasons as part of the Summary Review Memorandum and on the related MFC form. (Ref: par. .A44–.A48)

**.52** The reviewer should consider the interrelationships among the elements of quality control and weigh the matters against compensating policies and procedures to determine the impact to the peer review conclusions.

**.53** The reviewer should document a finding on an FFC form when the reviewer concludes that one or more related matters result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with the requirements of applicable professional standards.

**.54** The team captain should document a deficiency in the report when the reviewer has concluded the firm would not have reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in one or more important respects, due to the relative importance of the matter to the reviewed firm's system of quality control or compliance with it, taking into consideration the nature, systemic causes, pattern, or pervasiveness of the matter.

**.55** The team captain should document a significant deficiency in the report when the captain has concluded the reviewed firm's system of quality control does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects, due to the relative importance of the matter to the reviewed firm's system of quality control or compliance with it, taking into consideration the nature, systemic causes, pattern, or pervasiveness of the matter.

**.56** The team captain should complete a Disposition of Matters for Further Consideration (DMFC) for all MFCs, indicating whether each MFC was

- a. discussed with the firm and deemed resolved or considered insignificant,
- b. included on a specific FFC form (individually or combined with other MFCs), or
- c. included as a deficiency or significant deficiency (individually or combined with other MFCs) in a report with a peer review rating of *pass with deficiencies* or *fail*, respectively.

#### *Repeat Findings, Deficiencies, and Significant Deficiencies*

**.57** When the same systemic cause identified in the prior review is also identified in the current review, the reviewer should determine if a repeat finding, deficiency, or significant deficiency exists. To make this determination, the reviewer should review the results of the reviewer's planning procedures to determine if the firm implemented the planned actions documented in the prior review's FFC forms or letter of response, as applicable. If the actions were implemented, the reviewer should

- a. consider if the actions taken were appropriate to remediate the weakness in the firm's system of quality control, and
- b. reconsider if the same weakness from the prior review is causing the current finding, deficiency, or significant deficiency.

**.58** If a repeat finding, deficiency, or significant deficiency is identified, it should be documented as such in the FFC form or report, as applicable.

#### **Communication Requirements for Closing Meeting and Exit Conference**

##### *Closing Meeting Communication Requirements*

**.59** Prior to issuing the report or finalizing MFCs and FFCs, if applicable, the team captain should communicate the conclusions to the firm at a closing meeting. The team captain should discuss the following during the closing meeting: (Ref: par. .A49–.A50)

- a. Preliminary peer review results, including any matters, findings, deficiencies, or significant deficiencies, and the type of report expected to be issued if determinable at this point
- b. The firm's requirement to respond to the MFCs, FFCs, or deficiencies or significant deficiencies included in the peer review report
- c. The firm's required written representations
- d. Other suggestions and observations for the firm to consider (Ref: par. .A51)

**.60** The closing meeting should be held within a reasonable timeframe before the firm's due date to allow enough time for the firm to determine appropriate remediation with respect to findings, deficiencies, and significant deficiencies, if applicable. (Ref: par. .A52)

**.61** The team captain should consider the need to have the team members participate or be available for consultation (in person or via teleconference) during the closing meeting or exit conference, especially when, in unusual circumstances, the team captain does not have the experience to review the industry of an engagement that was reviewed by the team member. (Ref: par. .A53)

#### *Exit Conference Communication Requirements*

**.62** The team captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The team captain should consider the following: (Ref: par. .A54–.A55)

- a. The firm’s response should include
  - i. the firm’s actions taken or planned to remediate the findings or deficiencies in the firm’s system of quality control and nonconforming engagements, if applicable,
  - ii. timing of the remediation, and
  - iii. additional procedures to ensure the finding or deficiency is not repeated in the future.
- b. The action should be feasible, genuine, and comprehensive.
- c. If the firm has taken action, the reviewer should review documentation of actions taken and consider whether the action is appropriate. (Ref: par. .A56)

**.63** After the firm has responded to the MFCs, FFCs, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, the team captain should communicate the results to the firm at an exit conference. The team captain should discuss the following during the exit conference:

- a. The peer review results to be submitted to the AE, including any changes to the information communicated at the closing meeting after consideration of the firm’s responses to MFCs, FFCs, and deficiencies and significant deficiencies in the report
- b. The appropriateness of the firm’s response
- c. The firm’s representation letter
- d. Potential implications of the peer review acceptance process and the impact to the acceptance and completion of the peer review and to the reviewed firm’s enrollment in the program, including, but not limited to, the following:
  - i. Corrective actions for deficiencies and significant deficiencies and implementation plans for findings, if applicable
  - ii. Recommended report rating changes
  - iii. Oversight
- e. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable

#### **Written Representations**

.64 The team captain should request management of the firm to provide written representations for the peer review year that are dated as of the date of the peer review report stating the following: (Ref: par. .A57)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting and auditing practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the team captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which the firm practices for the year under review. If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe the remediation of the noncompliance.
- d. Management has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable.
- e. Management has fulfilled its responsibility to remediate nonconforming engagements as stated by the firm on the [*MFC form, FFC form, or letter of response*], if applicable.
- f. Management understands the intended uses and limitations of the quality control materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting and auditing practice.
- g. Management has responded fully and truthfully to the team captain's inquiries.
- h. Management has provided the team captain with all relevant information, which included
  - i. all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, and
  - ii. all must-select engagements, as applicable.
- i. Management has disclosed to the team captain if the firm performed must-select engagements for the period covered by the peer review, and, if so, at least one of each type of must-select engagement that was performed was selected and reviewed by the peer reviewer.
- j. Management acknowledges that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the

- Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, or enforcement body.
- k. Management has provided the team captain communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
  - l. Management has either disclosed that there are no known limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end, or management has included a summary of the limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

**.65** If a firm fails to discuss significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, the team captain should immediately consult with the AE because this constitutes a failure to cooperate, and the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated. (Ref: par. .A58)

**.66** If, in addition to the representations required by paragraph .64, the team captain determines that it is necessary to obtain other representations based on the circumstances and nature of the peer review, the team captain should request such other written representations.

### **Reporting on System Reviews**

**.67** To determine the type of report to issue, the team captain should use professional judgment and consider the understanding of the firm's system of quality control and the nature, systemic causes, pattern, and pervasiveness of matters and their relative importance to the firm's system of quality control taken as a whole, including limitations on the scope of the review. (Ref: par. .A59–.A62)

**.68** The written report in a system review should (Ref: par. .A63)

- a. be dated as of the exit conference date.
- b. be issued on letterhead of the firm performing the review.<sup>7</sup>
- c. state at the top of the report the title "Report on the Firm's System of Quality Control."
- d. include headings for each of the following sections:
  - i. Firm's Responsibility
  - ii. Peer Reviewer's Responsibility

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<sup>7</sup> A report by a reviewer formed by an association of CPA firms should be issued on the letterhead of the firm of the team captain performing the review.



- iii. Required Selections and Considerations (if applicable)
- iv. Deficiency(ies) or Significant Deficiency(ies) Identified in the Firm's System of Quality Control (if applicable)
- v. Scope Limitation (if applicable)
- vi. Opinion
- e. state that the system of quality control for the accounting and auditing practice of the firm was reviewed and include the year-end covered by the peer review.
- f. state that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board of the AICPA.
- g. state that a summary of the nature, objectives, scope, limitations of, and procedures performed in a system review, as described in the standards, can be found on the AICPA website where the standards are summarized.
- h. include a URL reference to the AICPA website where the standards are located, and state that the summary includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.
- i. state that the firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects and for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with the requirements of applicable professional standards, where appropriate, and for remediating weaknesses in its system of quality control, if any.
- j. state that the reviewer's responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on the review.
- k. identify engagement types required to be selected, and indicate whether single or multiple engagements (for example, an audit versus audits) were reviewed, when applicable.
- l. state that reviews by regulatory entities, as communicated by the firm, if applicable, were considered in determining the nature and extent of procedures.
- m. in the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagements or elements of the firm's system of quality control to the firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagements excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review. The reviewer should tailor the opinion, as appropriate, to address the scope limitation.
- n. identify the different peer review ratings that the firm could receive.
- o. in a report with a peer review rating of *pass*,
  - i. express an opinion that the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
  - ii. state that the firm has received a peer review rating of *pass*.

- p. in a report with a peer review rating of *pass with deficiencies*, (Ref: par. .A64)
  - i. express an opinion that, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
  - ii. state that the firm has received a peer review rating of *pass with deficiencies*.
- q. in a report with a peer review rating of *fail*,
  - i. express an opinion that, as a result of the significant deficiencies previously described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year ended was not suitably designed or complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
  - ii. state the firm has received a peer review rating of *fail*.
- r. in a report with a peer review rating of *pass with deficiencies* or *fail*,
  - i. include descriptions of the deficiencies or significant deficiencies (each of these should be numbered), which include reference to the applicable requirements of the Statements on Quality Control Standards, the scenario that led to the deficiency or significant deficiency, and reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable.
  - ii. if there are repeat deficiencies or significant deficiencies, state that the deficiency or significant deficiency was noted in the firm's previous peer review. This should be determined based on the systemic cause of the deficiencies or significant deficiencies. (Ref: par. .A65)
  - iii. identify the level of service for any deficiencies or significant deficiencies.
  - iv. identify the applicable industry if a deficiency or significant deficiency is industry specific.
  - v. identify any must-select engagement types in which nonconforming engagements were noted as a result of a deficiency or significant deficiency.

**.69** If a firm that is not required to have a system review elects to have one in accordance with paragraph .A1 of section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*, the peer review report should be modified to include the following sentence: “[*Firm name*] has represented to us that the firm did not perform engagements that would require a system review.”

### **Submission of Peer Review Documentation to the AE by the Team Captain**

**.70** Within 30 days of the exit conference date or by the firm's peer review due date, whichever date is earlier, the team captain should complete electronically and submit to the AE, as applicable, the following documents: (Ref: par. .A66)

- a. Report and letter of response, if applicable
- b. Summary Review Memorandum
- c. FFC forms, if applicable
- d. MFC forms, if applicable
- e. DMFC, if applicable
- f. Firm's representation letter
- g. Engagement profiles and supplemental checklists for reviews of engagements subject to the Single Audit Act and the Uniform Guidance, if applicable
- h. Explanation of "no" answers for quality control checklists

**.71** For all reviews administered by the National PRC, the team captain should submit the following documents in addition to those required by paragraph .70, as applicable: (Ref: par. .A66)

- a. All documents required to be submitted for system reviews
- b. Engagement questionnaires or checklists
- c. Quality control documents and related practice aids
- d. Staff and focus group interview forms
- e. Planning documents
- f. Any other documents considered relevant by the team captain

## **Application and Other Explanatory Material**

### **Reviewer Qualifications for Team Captains (Ref: par. .05)**

**.A1** Peer review training courses designed to meet the requirement are located on the Peer Review page of the AICPA website.

### **Reviewer Qualifications for Must-Select and Must-Cover Engagements (Ref: par. .06)**

**.A2** The must-select additional training courses designed to meet the requirement are described on the Peer Review page of the AICPA website.

### **Planning (Ref: par. .09–.10)**

**.A3** The personnel list assists reviewers in performing their risk assessment procedures. The reviewer may request that the list include

- a. name
- b. position
- c. years of experience
  - i. with firm and
  - ii. in total

**.A4** Quality control documentation will likely include the firm’s quality control document, evidence of the performance of the firm’s monitoring procedures, and CPE documentation, among other documents.

*Understanding the Firm’s Accounting and Auditing Practice and System of Quality Control (Ref: par. .11–.14)*

**.A5** Examples of elements that could reside outside of the firm include, but are not limited to, membership in associations, joint ventures, non-CPA-owned entities, alternative practice structures, arrangements with outside consultants, third-party quality control materials, or CPE.

*Understanding and Assessing Peer Review Risk (Ref: par. .15–.19)*

**.A6** Circumstances within the firm may include the following:

- a. The relationship of the firm’s audit hours to total accounting and auditing hours
- b. The size of the firm’s major engagements relative to the firm’s practice as a whole
- c. Initial engagements and their impact on the firm’s practice
- d. The industries in which the firm’s clients operate, especially the firm’s industry concentrations
- e. The results of the prior peer review
- f. The actions of the firm in response to the prior report and FFC forms
- g. The results of any regulatory or governmental oversight or inspection procedures (Ref: par. .A8)
- h. The risk level of the engagements performed (Ref: par. .A9)
- i. The extent of nonaudit services
- j. Significant changes in the firm’s practice

**.A7** Circumstances outside the firm may include the following:

- a. New professional standards or those being applied initially for one or more clients
- b. Changes in regulatory requirements
- c. Adverse economic developments in an industry in which one or more of the firm’s clients operate
- d. Significant developments in the client’s organization

**.A8** Regulatory or governmental oversight agencies may include, but are not limited to, the Department of Labor or the Department of Health and Human Services. Refer to the guidance in appendix A, “Consideration of the Results of Regulatory Oversight or Inspections in the Planning and Performance of a Peer Review.”

**.A9** Examples of higher-risk engagements include, but are not limited to, audits of employee benefit plans, entities subject to the Single Audit Act, entities subject to SEC complex independence requirements, and others with high-risk features or complex accounting or auditing applications.

**.A10** Control risk factors may include, but are not limited to, the team captain's evaluation of the firm's policies and procedures related to the following:

- a. CPE
- b. The firm's professional library
- c. Engagement acceptance
- d. Engagement review and supervision
- e. Engagement quality control review (EQCR)
- f. Monitoring processes
- g. Recruitment and hiring
- h. Monitoring independence
- i. Timely completion of the assembly of final engagement files by engagement teams

**.A11** The lower the inherent and control risk, the higher the tolerable detection risk, and vice versa.

**.A12** The assessed levels of risk are the key considerations in deciding the number and types of engagements to review and, where necessary, offices to visit. Through the assessment of risk, the reviewer determines the coverage of the firm's accounting and auditing practice that will result in an acceptably low peer review risk.

*Engagement Selection* (Ref: par. .20–.21, .23–.24, .25, and .28)

**.A13** Risk factors that may influence a reviewer's decision to select engagements include, but are not limited to, the following:

- a. Engagement size, in terms of the hours required to plan and perform the engagement
- b. Engagements involving experienced personnel hired from other firms and partners who also have office, regional, or firm-wide management, administrative, or functional responsibilities
- c. Engagements in which work on segments has been referred to other firms, foreign offices, domestic or foreign affiliates, or correspondents
- d. Engagements in which one or more affiliated entities (for example, parent companies and subsidiaries or brother and sister companies) constitute a large portion of the firm's overall clientele
- e. Engagements identified in the firm's quality control system or guidance material as having a high degree of risk

- f. Engagements in which departures from professional standards and failure to comply with the firm's quality control policies and procedures were noted in the preceding year's monitoring procedures
- g. Engagements in industries where the firm has experienced high instances of litigation, proceedings, or investigations

**.A14** Risk factors that may influence a reviewer's decision to visit or select engagements from a particular office include, but are not limited to, the following:

- a. The number, size, and geographic distribution of offices
- b. The degree of centralization of accounting and auditing practice control and supervision
- c. The reviewer's evaluation, if applicable, of the firm's monitoring procedures
- d. Recently merged or recently opened offices
- e. The significance of industry concentrations and of specialty engagements, such as governmental compliance audits or regulated industries, to the firm and to individual offices
- f. Extent of nonaudit services to audit clients

**.A15** Public interest industries are those that benefit the general welfare of the public, such as those that have recent regulatory and legislative developments. Public interest industries will vary across firms.

**.A16** In response to the reviewer's assessed levels of risk and to obtain a reasonable cross section of the firm's accounting and auditing practice, it may be more appropriate for the engagement selection to include more than one engagement from a particular industry or engagement type (including must-select engagements).

**.A17** The reviewer may determine that the firm's current year's internal monitoring procedures could enable the reviewer to reduce, in a cost-beneficial manner, the extent of the peer review procedures. Refer to the guidance in appendix B, "Considering the Firm's Monitoring Procedures to Reduce a Reviewer's Testing Procedures."

**.A18** Staff may recommend that a panel from the board or its task forces review a firm's internal inspection or peer review planning in advance. In addition, a firm or peer reviewer may request that the AE review the internal inspection or peer review planning in advance.

**.A19** If an engagement from the peer review year has not yet been issued, and a comparable engagement issued within the peer review year is not available, the prior year's engagement may be reviewed.

**.A20** If an engagement from the peer review year and the subsequent year's engagement have been issued, the reviewer may select the more recently issued engagement based on the reviewer's assessment of peer review risk factors including, but not limited to, the following:

- a. Whether the engagement was performed during the peer review year
- b. The number of subsequent engagements available and selected for review
- c. Significant changes in the applicable professional standards
- d. The differences in issues identified in the engagements

**.A21** Examples of when a firm may either request an extension or include a scope limitation include, but are not limited to, the following:

- a. A firm performing its first must-select engagement with a period end during the peer review year that has not been issued prior to the commencement of the review
- b. A firm performing an initial engagement for a client and there are no other initial engagements that have been issued during the peer review year, nor are there any for the prior period

**.A22** Failure of the firm or reviewer to consider a complete population of engagements may be considered not cooperating with the program, which may result in the recall of peer review acceptance if an omission is subsequently discovered.

**.A23** At least one engagement from each must-select engagement type should be reviewed according to paragraph .27. A must-cover engagement is not required to be reviewed but should be considered in the reviewer's peer review risk assessment. A reviewer should have at least recent experience in the must-select and must-cover engagements performed by the reviewed firm.

**.A24** The reviewer may request that the firm provide access to one of the reviewer's selections (a surprise engagement) as soon as practical. The selection is ordinarily an audit engagement.

### **Procedures Performed in Response to Assessment of Peer Review Risk (Ref: par. .31–.33)**

**.A25** Factors to consider in determining the highest-risk audit areas include the following:

- a. The highest-risk audit areas in the client's industry (for example, revenue recognition for construction companies; inventory and accounts receivable for manufacturing and retail concerns; policy reserves for insurance companies; or loan loss allowances for financial institutions)
- b. The highest-risk audit areas noted during the review of the financial statements and discussions with engagement personnel (for example, review of loan defaults or follow-up of litigation matters)
- c. The highest-risk audit areas identified by the firm in planning or conducting the engagement, including those areas identified in the engagement profile
- d. Recent accounting and auditing developments and pronouncements
- e. Weaknesses noted in other engagements reviewed
- f. Weaknesses noted by the firm through its monitoring procedures

**.A26** If no events relative to an element of a firm's system of quality control occurred during the peer review year, it may be necessary for a team captain to review evidence from prior to the peer review year. For example, if there were no instances of accepting new clients in the peer review year, it is appropriate to test compliance in prior years, assuming the design of the policies and procedures is the same. Another example would be when the team captain reviews the monitoring and inspection results from the intervening periods to determine appropriate design and compliance of monitoring procedures. Looking at the intervening periods allows the team captain to evaluate whether the firm is properly communicating and remediating engagement and systemic issues identified.

**.A27** Examples of other evidence include, but are not limited to,

- a. selected administrative or personnel files,
- b. correspondence files documenting consultations on technical or ethical questions,
- c. files evidencing compliance with human resource requirements, and
- d. the firm's technical reference sources.

**.A28** A firm may have requirements embedded in its quality control policies and procedures that do not directly contribute to the firm's compliance with the quality control standards established by the AICPA. For example, voluntary membership requirements that do not directly contribute to the firm's compliance would not be tested, addressed, or reported on in the peer review process.

**.A29** Acceptable documentation includes an original or copy of the license, print-out from an online license-verification system, correspondence from the licensing authority, or other reasonable alternative documentation. The reviewer's judgment may be needed to determine what alternative documentation is reasonable.

**.A30** A reviewer may verify an out-of-state practice unit license or an out-of-state individual license on an individual engagement basis, when that engagement is selected for review and was performed by the reviewed firm in another state requiring a firm or individual license. The decision to perform further testing is based on the reviewer's understanding of the firm's quality control procedures related to licensing and the related risk of noncompliance.

*Evaluation of Engagements (Ref: par. .37 and .39)*

**.A31** Audit engagement areas where risk may be significant include, but are not limited to, fraud considerations, use of estimates, emerging issues, and assertions that are difficult to audit.

**.A32** Although it is ultimately the firm's responsibility, the team captain and firm may collaborate to determine the remediation.

*Expansion of Scope (Ref: par. .42)*



**.A33** An expansion of scope may include the review of all or relevant portions of one or more engagements. Additional engagements may be

- a.* in the same industry,
- b.* supervised by the same individual, or
- c.* have characteristics associated with the failure to perform or report in conformity with applicable professional standards.

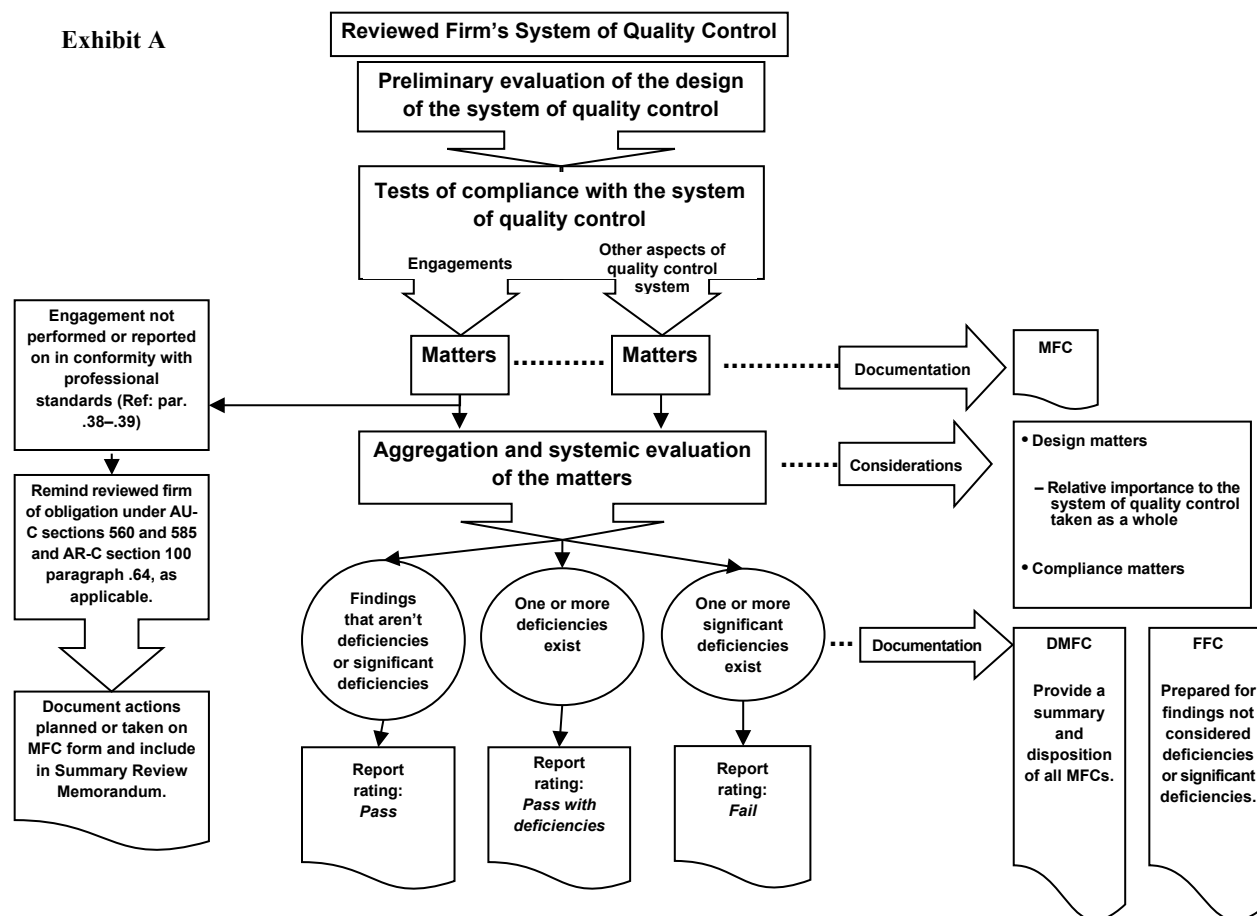
**.A34** An expansion of scope may be necessary to determine

- a.* the pattern and pervasiveness of matters identified,
- b.* the systemic cause of a matter,
- c.* if a matter is isolated, or
- d.* if a matter should be elevated to a finding, deficiency, or significant deficiency.

### **Identifying, Aggregating, and Evaluating Matters, Findings, Deficiencies, and Significant Deficiencies**

*Identifying Matters, Findings, Deficiencies, and Significant Deficiencies (Ref: par. .44)*

**.A35** Exhibit A shows a broad understanding of the peer review process, from the evaluation of the design of the system of quality control, to the tests of compliance, to the determination of a matter, finding, deficiency, or significant deficiency. It also illustrates the aggregation of these items, their documentation, and their potential impact to the report rating.

**Exhibit A**

**.A36** One or more matters may be elevated to a finding, deficiency, or significant deficiency.

*Determination of the Systemic Cause (Ref: par. .45)*

**.A37** Matters may be symptoms of weaknesses in the firm's system of quality control.

**.A38** The "no" answers identified when completing peer review checklists for the review and testing of quality control policies and procedures are a helpful resource for reviewers to assess the systemic cause.

**.A39** Separate matters that are exactly the same may result from different weaknesses in the firm's system of quality control. Likewise, separate matters that are different may result from the same weakness in the firm's system of quality control.

**.A40** The following are some examples of systemic causes that could affect the type of peer review report issued. The examples cover a broad range of conditions that may not be relevant to every peer review and are not a complete list.

- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
- b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
- c. The failure may have been detected if the firm's quality control policies and procedures had been followed.
- d. The failure may have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the AE before reaching such a conclusion.

*Isolated Matters (Ref: par. .48–.49)*

**.A41** The reviewer's ability to conclude that a matter is isolated may be dependent on the reviewer's ability to expand the scope to engagements or elements that are classified by common characteristics such as, but not limited to, the industry, level of service, the practitioners in charge, or must-select engagements.

**.A42** A matter is not isolated if there is only one instance available for the reviewer to evaluate. For example, if the matter relates to noncompliance with professional standards regarding employee benefit plans and the firm performs only one employee benefit plan engagement, then the matter would not be considered isolated.

**.A43** Considerations of an isolated matter may be documented in the related MFC form, DMFC form, or Summary Review Memorandum.

*Aggregating and Evaluating Matters*

**.A44** The more direct the relationship between a specific quality control policy and procedure and the application of professional standards, the greater the probability that the firm may not perform or report in conformity with applicable professional standards in all material respects when that policy or procedure is not complied with.

**.A45** An isolated matter or instance of noncompliance with the firm's system of quality control may be elevated to a finding, deficiency, or significant deficiency when evaluated with the review's other matters (in the aggregate). For example, a single disclosure matter and a single documentation matter may be isolated when taken individually, but they may have resulted from the same systemic cause, or an isolated matter may be materially significant in amount or nature, or both.

**.A46** There may be circumstances in which the reviewer identifies few findings in the work performed by the firm but may conclude that the firm's system of quality control would not be

effective if complied with. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as human resources (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer may conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects and may result in a deficiency or significant deficiency in a report with a peer review rating of *pass with deficiencies* or *fail*.

**.A47** Variances in individual performance and professional interpretation may affect the degree of compliance with a firm's system of quality control. However, the degree of compliance with the firm's quality control policies and procedures needs to be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

**.A48** A design or compliance matter, by itself, may result in a peer review rating of *pass with deficiencies* or *fail* when one or more conditions are present in the firm's system of quality control and the reviewer has concluded that the conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more respects. Examples include, but are not limited to, the following:

- a. Failure to establish or comply with quality control policies and procedures designed to provide the firm with reasonable assurance that the internal culture is based on recognition that quality is essential in performing engagements. This may be evidenced by the lack of a quality control document, failure to appropriately respond to findings in a regulatory investigation, or failure to have a timely peer review.
- b. Failure to comply with relevant ethical requirements. This may be evidenced by failure to obtain independence confirmations from all personnel, failure to inform personnel on a timely basis of changes to the list of clients and related entities, or failure to address potential breaches of independence.
- c. Failure of the firm to undertake or continue relationships and engagements only when the firm is competent to perform the engagements. This may be evidenced by failure to have policies and procedures in place to require evaluation of the nature of the services to be provided, evaluation of the firm's resources to provide the services, or evaluation of the need to engage a third party to assist in new industries.
- d. Failure of the firm to have personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards. This may be evidenced by failure to have policies and procedures requiring personnel to maintain a CPA license, comply with industry-specific CPE requirements, or ensure appropriate industry experience on engagement teams.
- e. Failure of the firm to comply with monitoring of the firm's system of quality control. This may be identified by lack of monitoring of appropriate CPE for all firm personnel,

lack of monitoring of all elements of the firm's system of quality control in the firm's peer review year, or failing to appropriately respond to issues identified during engagement inspection.

### **Communication Requirements for Closing Meeting and Exit Conference**

#### *Closing Meeting Communication Requirements (Ref: par. .59–.61)*

**.A49** The closing meeting may also be attended by representatives of the AE, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities.

**.A50** The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined.

**.A51** Other suggestions and observations may include implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement.

**.A52** A reasonable timeframe is typically 30 days.

**.A53** If the engagement was reviewed by a specialist, it may be beneficial for the specialist to be available for or participate in the exit conference.

#### *Exit Conference Communication Requirements (Ref: par. .62)*

**.A54** The purpose of the firm's response on the FFC form or in the letter of response is for a firm to document the specific actions that will be taken to correct findings, deficiencies, and significant deficiencies noted by the reviewer.

**.A55** The AE's peer review committee (committee) may require the firm to make and document appropriate considerations regarding nonconforming engagements as a condition of acceptance of the peer review. The firm response may affect other monitoring actions the committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

**.A56** Examples of firm actions that may be taken in response to nonconforming engagements include, but are not limited to, the following:

- a. Performing omitted procedures performed (including documentation)
- b. Reissuing reports and financial statements
- c. Notifying users to discontinue use of previously issued reports

### **Written Representations (Ref: par. .64–.65)**

**.A57** Exhibit A, “Illustrative Representation Letter,” in section 310 provides an illustrative example of a firm’s representation letter.

**.A58** Examples of how a team captain may discover significant issues include the following:

- a. The team captain reviews the referral database and identifies a referral specific to the firm or a professional within the firm.
- b. The AE provides the team captain with a referral.
- c. The team captain identifies information about significant issues within a firm from a news outlet or publicly available website (for example, via the PCAOB, state board of accountancy, and so on).

### **Reporting on System Reviews (Ref: par. .67 and .69)**

**.A59** A report with a peer review rating of *pass* is issued when the team captain concludes that the firm’s system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

**.A60** A report with a peer review rating of *pass with deficiencies* is issued when the team captain concludes that the firm’s system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

**.A61** A report with a peer review rating of *fail* is issued when the team captain has identified significant deficiencies and concludes that the firm’s system of quality control is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

**.A62** In the event of a scope limitation, a report with the applicable peer review rating (*with a scope limitation*) is issued.

**.A63** Exhibit B, “Illustrative Examples of the Reviewer’s Report on the Firm’s System of Quality Control,” contains example reports that may be tailored by the reviewer to meet the requirements described in paragraph .69.

**.A64** Reference to plural “deficiencies” could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

**.A65** If there are repeat deficiencies that have occurred on prior consecutive reviews, the captain should state in the current report that “this deficiency was noted on previous reviews.”

**Submission of Peer Review Documentation to the AE by the Team Captain (Ref: par. .70–.71)**

**.A66** All peer review working papers are subject to oversight procedures and may be requested later.

## ***Appendix A — Consideration of the Results of Regulatory Oversight or Inspections in the Planning and Performance of a Peer Review (Ref: par. .A8)***

**.A67**

**.01** This appendix contains information related to team captain considerations when a reviewed firm has undergone oversight or inspection by regulatory or governmental bodies.

### **Oversight or Inspections by Regulatory or Governmental Entities**

**.02** Oversight or inspections by regulatory or governmental entities performed on a firm (for instance, the Department of Labor, the Department of Health and Human Services, or other local, state, or federal entities are certainly relevant when assessing peer review risk. The goals of regulatory or governmental oversight, however, may differ from the purpose of a system review. Therefore, although it would be inappropriate for a team captain to place reliance on regulatory or governmental oversight results, it is appropriate for a team captain to consider the following factors when determining the impact of regulatory or governmental oversight and communications from regulatory or governmental bodies on peer review risk:

- a. The impact of regulatory or governmental oversight on the scope of the peer review.* Both the inherent risk and control risk associated with a peer review may be affected if the types of engagements subject to regulatory or governmental oversight are also within the scope of engagements that can be selected for peer review. For example, the nature, systemic cause, pattern, or pervasiveness of issues identified by oversight may affect the assessed inherent risk as it relates to the firm's demonstrated expertise in performing the relevant types of engagements and the assessed control risk as it relates to how the system of quality control is designed to prevent issues in the relevant types of engagements and the effectiveness of those controls.

Although more substantive comments are more likely to affect the peer review engagement selections, a lack of comments from oversight or inspection does not necessarily indicate that the firm's system of quality control is operating effectively for the relevant industry practice. Ultimately, the impact to the peer review risk assessment (and thus the nature, timing, and extent of testing performed) will be based on the evaluation of the significance of the comments related to the firm's accounting and auditing practice performed by the team captain.

Finally, understanding the systemic causes of and firm responses to any deficiencies or indications of engagements that were not performed or reported on in conformity with applicable professional standards in all material respects identified by the oversight body is vital when determining the impact of oversight or inspection on the peer review risk assessment and engagement selection. Understanding these systemic causes and firm responses might also help the team captain identify the systemic causes of any similar



matters that are identified as a result of the review team's review of engagements during the peer review.

- b. The timing of the regulatory or governmental oversight results.* The time period covered by the regulatory oversight results is also relevant in determining the usefulness of the information when assessing peer review risk and determining the impact (if any) on the nature, timing, and extent of peer review procedures. For example, the oversight results from more recently completed oversight are likely to be more relevant than the results from older oversight. Any open or ongoing oversight, the status of that oversight, and the firm's preliminary remediation plans (if applicable) would also be relevant for a team captain's risk assessment.
- c. The firm's responsiveness to regulatory or governmental oversight results.* The degree of the firm's responsiveness to oversight findings and other communications, as evidenced by the remediation planned or taken, is also an important aspect of the team captain's risk assessment. Remediation efforts by the firm may affect industries that are subject to peer review and may assist the team captain when considering the design of the firm's system of quality control or compliance with it.
- d. The size of the firm relative to its specialized industry practices.* The relative significance of the specialized industry practices subject to regulatory oversight as compared to the firm's total practice is an important factor when determining the relevance of the oversight results to the peer review, as this may affect the reviewer's evaluation of the firm's design of and compliance with its system of quality control.

## **Inspections by the PCAOB**

**.03** Although PCAOB inspection reports cover only the portion of a firm's practice that is subject to permanent inspection, most firms typically have only one system of quality control. As a result, the PCAOB inspection report may contain information that could assist the reviewer in assessing peer review risk. The firm will have valuable insight on both the public and nonpublic portions (if made available) of either the most recently released PCAOB inspection reports or any ongoing PCAOB inspection. These insights will assist the team captain in identifying risks with the firm's system of quality control.

**.04** Similarly to other oversight or inspections, the nature, relative importance, systemic cause, pattern, or pervasiveness of the findings contained in PCAOB inspection reports may affect the nature, timing, and extent of peer review procedures. By performing the following steps, a team captain can properly identify risks associated with the firm's system of quality control:

- a.* Consider the information contained in public portions of recent PCAOB inspection reports.
- b.* Consider the information in the nonpublic portions of the PCAOB inspection reports, if made available by the firm.
- c.* Consider the information made available by the firm related to any ongoing PCAOB inspections.

- d.* Perform further inquiry of the firm to determine the offices, and partners, related to findings detailed in the PCAOB report.
- e.* Determine which PCAOB findings (if any) may be applicable to the portion of the firm's practice that was not subject to PCAOB inspection.
- f.* Understand the systemic causes of the findings (as determined by the firm).
- g.* Understand how the firm remediated the findings for the most current inspection (or the firm's remediation plan).
- h.* Consider the firm's remediation history with respect to PCAOB inspection findings (if any).

**.05** As a reminder, discussing PCAOB inspection findings does not permit the peer reviewer to request the nonpublic portions of the PCAOB inspection report.

## ***Appendix B — Considering the Firm’s Monitoring Procedures to Reduce a Reviewer’s Testing Procedures (Ref: par. .A19)***

### **.A68**

**.01** This appendix contains information on the team captain’s considerations of the firm’s monitoring procedures when the team captain plans to reduce scope based on those procedures. If a firm and team captain work collaboratively and with an integrated approach, regardless of the size of the firm, the team captain could maximize the benefits of taking into account a firm’s current-year internal inspection and other relevant factors (for example, regulatory oversight from the PCAOB or other regulatory or governmental entities, such as the Department of Labor [DOL], the Department of Health and Human Services [HHS], or local regulatory agencies) in determining inherent and control risk. However, given that the peer review covers a defined year, internal inspection procedures and results for a year outside the peer review year are not likely to be relevant.

**.02** In making a judgment about the effects that the firm’s current-year internal inspection procedures will have on the selection of offices and engagements to be reviewed, the team captain will likely need to consider the following:

- a. The firm’s cooperation and willingness to share all relevant information
- b. Whether the firm’s internal inspection procedures are robust
- c. Whether the firm’s internal inspection includes all clients, even those not subject to the AICPA’s peer review standards
- d. The potential biases of the firm’s internal inspectors and the impact of those biases on the internal inspection results

**.03** The team captain will also likely need to consider the extent of the review team’s involvement in the internal inspection process, including the following:

- a. Level of involvement in internal inspection planning, such as inclusion in discussions or meetings, and the team captain’s approval of internal inspectors’ qualifications, the internal inspection’s risk assessment, scopes, risk-based approach, and office or engagement selections.
- b. Coordination of peer review planning with internal inspection planning.
- c. An in-depth understanding of the firm’s internal inspection process, including an assessment of its design and effectiveness.
- d. The level of contemporaneous testing of the firm’s internal inspection procedures (commonly called “piggyback reviews” or “piggyback testing”). The less piggyback testing a review team performs, the more direct testing the review team would need to

perform, and vice versa. In order to be effective, procedures for piggyback testing would need to be similar to those for direct testing. For example, engagement piggyback testing procedures could include a review of financial statements, working papers, and the engagement checklist being used by the internal inspector, as well as participation by the review team in discussions, meetings, or both between the internal inspector and the engagement partner or manager and related follow-up procedures. Although testing of internal inspection procedures can be performed after the internal inspection procedures are completed, this type of testing will not provide the peer reviewer with the same level of understanding and insight into the internal inspection process as piggyback testing would. In addition to piggyback testing, a reviewer may perform supplant reviews, for which the reviewer becomes a member of the internal inspection team and participates in one or more reviews of engagements. Supplant reviews enable a reviewer to evaluate the internal inspection team's process and decision-making, and as with piggyback reviews, there is a correlation between the level of the reviewer's involvement in the internal inspection and direct testing.

- e. Assessment of how the internal inspectors resolve open matters and deal with potential issues detected in their reviews.
- f. The scopes and selections of the internal inspectors and the use of peer review to balance out the coverage.
- g. The correlation between the findings of the reviewer and internal inspection, evaluated with regard to the peer review's scope.

**.04** The results of these considerations assist the team captain in determining the appropriate amount of procedures to be performed by the review team. A team captain may be able to significantly reduce the scope of the procedures the review team directly performs. For example, a significant reduction would be permitted when the extent of the peer reviewer's involvement with the firm's internal inspection is so timely and significant that the peer review and internal inspection can be viewed as an integrated activity. In this example, the collaboration would result in a reallocation of effort and resources between the review team and the firm in such a way that the overall scope and the effort involved are not diminished and, if anything, are enhanced. The resulting peer review would remain as rigorous as a peer review in which there is no consideration of internal inspections or other inputs.

**.05** Ultimately, if the reviewer plans to consider the current-year internal inspection procedures to reduce the scope of the peer review, the team captain would need to determine that the firm's internal inspection procedures

- a. were applied properly in the reviews of individual practice offices and engagements.
- b. were carried out conscientiously by competent persons with appropriate expertise and objectivity.

- c. produced findings that are representative of the work performed by the firm and therefore can be considered by the review team to reach an overall conclusion regarding the firm's compliance with its quality control policies and procedures.

**.06** As stated when discussing piggyback testing, testing performed by the review team in order to reach these conclusions can be performed contemporaneously or after internal inspection procedures have been completed.

**.07** Examples of procedures a review team would perform when testing the effectiveness of the internal inspection procedures contemporaneously with the performance by the internal inspection team performing the procedures include the following:

- a. Re-performing the review of a sample of engagements subjected to internal inspection procedures
- b. Re-performing the review of a sample of the quality control policies and procedures (functional elements) subjected to internal inspection procedures in the offices
- c. Comparing the review team's findings to the internal inspection team's findings and resolving any differences
- d. Attending discussions of engagement findings and the overall office findings, if applicable

**.08** Examples of procedures a review team would perform when testing the effectiveness of the internal inspection procedures after the procedures have been completed include the following:

- a. Re-performing the review of a sample of engagements
- b. Re-performing the review of a sample of the quality control policies and procedures (functional elements) subjected to internal inspection procedures in the offices
- c. Comparing the review team's findings to the internal inspection team's findings and resolving any differences

#### Practical Examples Related to Relying on a Firm's Internal Inspection Procedures

**.09** The following are example scenarios a team captain could encounter when considering whether or not to rely on a firm's internal inspection procedures. Of course, these examples cannot address all the different factors a team captain could consider, and thus, the team captain will need to use judgment in determining whether and to what extent the reviewer could reduce or modify scope.

*Example 1:* A firm has 800 employees, 10 offices, and a strong centralized quality control department; operates by industry segment; and has pre-issuance reviews and annual internal inspections. It is registered with the PCAOB, undergoes annual PCAOB inspection, and has one

system of quality control for both SEC and non-SEC engagements. Based on various factors, the peer reviewers have assessed inherent and control risk as low. Prior peer reviews have been *pass* reports. Internal inspection appears robust, and beginning last year, the firm lowered the bar for “no” responses on checklists used for internal inspections. The peer reviewers were integrally involved in the internal inspection, approved the planning, and attended several office exit conferences. In addition, they performed piggybacks on 5 percent of the firm’s internal inspection procedures, and those procedures confirmed other internal inspection results. The PCAOB was involved in the current year’s internal inspection planning, and results of the prior year’s PCAOB inspection mirrored prior internal inspection results. Results from a DOL audit that covered the peer review year raised an issue that was also highlighted during the current year’s internal inspection. *The peer reviewers could consider maximum reliance on the internal inspection process and thus consider a reduction in scope or procedures.*

*Example 2:* A firm has 300 employees and 5 offices. The firm has undergone several mergers in the past two years. Engagements undergo pre-issuance review, and each office performs its own internal inspection that is then sent to the main office. The firm engaged new peer reviewers and asked them to implement the guidance contained in this document with the intent of reducing scope and procedures and thus costs. The peer reviewers participated in planning meetings and performed a number of piggybacks. However, the peer reviewers disagree with some of the judgments made by the internal inspectors and believe that the results from the offices are not being consolidated adequately. They are concerned that the integration of the firms has not been successful. The firm is registered with the PCAOB and underwent an inspection in the past year. However, the report is not yet public, and the firm is unable or unwilling to communicate the results or its experiences with the peer reviewers. *The peer reviewer would not be able to place significant reliance on internal inspection to reduce scope or procedures in this example.*

*Example 3:* A firm has 60 employees and 2 offices. It performs pre-issuance reviews and annual internal inspections. The peer reviewers have assessed inherent and control risk as moderate. Prior peer reviews have been *pass* reports with a few findings for further consideration. The firm has a very experienced and highly regarded quality control director who is assisted by several of the firm’s more technical partners each year in performing the internal inspection. They approach the internal inspection seriously. The peer reviewers were integrally involved in the internal inspection, approved the planning, and attended several office exit conferences. In addition, they performed piggybacks on 7 percent of the firm’s internal inspection procedures, and those procedures confirmed other internal inspection results, even though they revealed several issues that might lead to findings. The firm is registered with the PCAOB and underwent an inspection in the prior year. The quality control director shared the PCAOB’s matter sheets with the peer reviewers. The PCAOB had noted that staff was not adequately documenting considerations related to fraud on the SEC engagements. The internal inspectors paid particular attention to this matter and agreed that it was a problem for one of the offices. *The peer reviewers could consider*

*moderate reliance on the internal inspection process and, thus, some reduction in scope or procedures.*

*Example 4:* A firm has 20 employees and 1 office. It has no SEC engagements and is not registered with the PCAOB. Its last peer review was *pass* with no findings. The firm performs pre-issuance reviews and annual internal inspections. The partner that performs the internal inspection is also the pre-issuance reviewer or engagement partner on many of the firm's audit engagements. The firm's annual internal inspection is performed in the spring, but, due to scheduling conflicts, its peer reviewer, who comes from out of state, is only available in the fall. The two peer reviewers typically review four audits and four reviews or compilations, within a two- or three-day timeframe. *Cost-benefit and other considerations would most likely lead the firm and the peer reviewers to conclude that there should be no reliance on the internal inspection to reduce scope or procedures.*

## ***Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements (Ref: par. .27)***

**.A69**

**.01** This appendix contains the engagements identified as must select and must cover.

### **Must-Select Engagements**

**.02** The following paragraphs discuss must-select engagement types. One or more engagements should be reviewed from each must-select engagement type, taking into consideration requirements related to assessing peer review risk and engagement selection. (Ref: par. .20–.21, .23–.24, .25, and .28)

### **Engagements Under *Government Auditing Standards***

**.03** *Government Auditing Standards* (GAS), issued by the U.S. Government Accountability Office, requires auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards. Additionally, if the firm performs engagements of entities subject to the Single Audit Act, the reviewer must evaluate a compliance audit.

**.04** Inclusion of a must-select engagement should not supersede the reviewer’s consideration of engagements and industries that have a significant public interest, such as state and local governments, school districts, and Department of Housing and Urban Development (HUD) engagements. For example, if for-profit HUD multifamily housing project audit engagements constitute a significant percentage of a firm’s practice, one would expect the reviewer to select at least one such engagement for review. However, if the firm also performed an audit of an engagement subject to the Single Audit Act, such as a local government or not-for-profit organization, one such engagement must also be selected to perform an evaluation of the firm’s single audit compliance. Peer reviewers should also consider audit firm experience such as how many governmental audits the firm performs, the number of years’ experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on GAS engagements. Further consideration should be given to communications from regulatory agencies.

### **Audits of Employee Benefit Plans Under ERISA**

**.05** Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).

**.06** For employee benefit plans under ERISA, the peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in ERISA Section 103(a)(3)(C) audits (formerly called “limited-scope” audits) versus non-ERISA 103(a)(3)(C)



audits (formerly called “full-scope” audits) and in different types of benefit plans such as defined benefit, defined contribution, and voluntary health and welfare plans. If a firm has more than one of the preceding types of plans, a selection from each type of plan is not required; however, the reviewer must consider the unique risks associated with those types of plans and document how these risks were addressed in the risk assessment. Peer reviewers should also consider audit firm experience such as how many ERISA audits the firm performs, the number of years’ experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on ERISA engagements. Consideration should also be given to communications from regulatory agencies.

### **Audits Under FDICIA**

**.07** The 1993 FDIC guidelines implementing the FDICIA require auditors of federally insured depository institutions having total assets of \$500 million or greater at the beginning of the fiscal year to have a peer review that includes the review of at least one audit of an insured depository institution subject to the FDICIA.

**.08** For FDICIA engagements, peer reviewers should take into consideration the amount of total assets held by the federally insured depository institution (less than \$500 million, more than \$500 million, more than \$1 billion). Peer reviewers should also consider audit firm experience, such as how many FDICIA audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on FDICIA engagements. Further consideration should be given to the risks of the audited company, such as the level of reporting the institution complies with (the holding company level or the bank subsidiary level, and the regulatory issues associated with each), the balance of the lending portfolio (the industries and concentration percentage of the portfolio), any regulatory correspondence and examination results, capital ratios, financial institution management experience, economic environment and geographic location of the institution, number of branches, and experience and longevity of the board of directors and audit committee.

### **Examinations of Service Organizations**

**.09** Due to the reliance of user entities on system and organization control (SOC) reports, particularly SOC 1<sup>®</sup> and SOC 2<sup>®</sup> reports,<sup>8</sup> there is a significant public interest in examinations of service organizations relevant to user entities. If a firm performs an examination of one or more service organizations and issues a SOC 1 or SOC 2 report, at least one examination should be reviewed. If a firm performs both SOC 1 and SOC 2 engagements and a proper risk assessment

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<sup>8</sup> In 2017, the AICPA introduced the term *system and organization controls* (SOC) to refer to the suite of services practitioners may provide relating to system-level controls of a service organization and system- or entity-level controls of other organizations. Formerly, SOC referred to service organization controls. By redefining that acronym, the AICPA enables the introduction of new internal control examinations that may be performed (a) for other types of organizations, in addition to service organizations, and (b) on either system-level or entity-level controls of such organizations.

determined that only one SOC engagement should be selected, a SOC 1 engagement should be reviewed due to the reliance on the report by other auditors.

**.10** The peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in different types of SOC engagements (SOC 1 and SOC 2 engagements). If a firm performs more than one of the preceding types of SOC engagements, the reviewer must consider the unique risks associated with that type of engagement and document how these risks were addressed in the risk assessment. Peer reviewers should also consider audit firm experience such as how many SOC engagements the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, whether the firm utilizes a group that specializes in internal controls for completing its SOC engagements, and reasonableness of hours spent on SOC engagements. Additional consideration should be given to whether the firm performs SOC engagements with significant subservice organizations identified in the auditor's opinion (the inclusive method is higher risk than the carve-out method). Further consideration should be given to communications from regulatory agencies. Although SOC 1 and SOC 2 engagements are different, noncompliance for one type may be indicative of noncompliance in the other. SOC 3<sup>®</sup> engagements are not must-select engagements, but when considering the pervasiveness of a systemic cause and the portion of the firm's practice that may be affected by matters identified with other SOC engagements, the reviewer should also consider SOC 3 engagements.

## **Must-Cover Engagements**

**.11** The board periodically assesses engagements that may currently have the most significant public interest and deems them must-cover engagements. These engagements, in addition to the must-select engagement types described previously, are must-cover engagements for all firms.

**.12** The following are must-cover engagements: (Ref: par. .11 of section 100)

- a.* Internal control reports issued under the FDICIA when total assets exceed \$1 billion
- b.* State and local governments
- c.* Any industry that has a 10 percent or more concentration of the firm's audit practice

## ***Exhibit B — Illustrative Examples of the Reviewer’s Report on the Firm’s System of Quality Control***

**.A70** This exhibit contains various illustrations of a peer reviewer’s report on a firm’s system of quality control (system reviews).

**Illustration 1 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass**

**Illustration 2 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With a Scope Limitation**

**Illustration 3 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies**

**Illustration 4 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation**

**Illustration 5 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail**

**Illustration 6 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail With a Scope Limitation**

## **Illustration 1 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass**

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

### **Report on the Firm’s System of Quality Control**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*,<sup>fn 1</sup>

We<sup>fn 2</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>fn 3</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm’s Responsibility**

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>fn 1</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee”

<sup>fn 2</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 3</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

## Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

## Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1 and SOC 2 engagements).<sup>fn 4</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

## Opinion

In our opinion, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>fn 5</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass*.

[Name of team captain's firm]

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<sup>fn 4</sup> If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of depository institutions with total assets of \$500 million or greater at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows: "*Government Auditing Standards*, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>fn 5</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## **Illustration 2 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With a Scope Limitation**

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

### **Report on the Firm’s System of Quality Control**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*,<sup>fn 1</sup>

We<sup>fn 2</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>fn 3</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **The Firm’s Responsibility**

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer’s Responsibility**

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<sup>fn 1</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee”

<sup>fn 2</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 3</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

### **Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1 and SOC 2 engagements).<sup>fn 4</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### **Scope Limitation**<sup>fn 5</sup>

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

### **Opinion**

In our opinion, except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review divested engagements, as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>fn 6</sup> in effect for the year ended June 30, 20XX, has been suitably designed and

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<sup>fn 4</sup> If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of depository institutions with total assets of \$500 million or greater at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "*Government Auditing Standards*, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>fn 5</sup> The scope limitation paragraph provided is an example for illustrative purposes only.

<sup>fn 6</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass (with a scope limitation)*.

[*Name of team captain's firm*]



### **Illustration 3 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies**

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

#### **Report on the Firm’s System of Quality Control**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*,<sup>fn 1</sup>

We<sup>fn 2</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>fn 3</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

#### **Firm’s Responsibility**

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>fn 1</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee.”

<sup>fn 2</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 3</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

## Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

## Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1 and SOC 2 engagements).<sup>fn 4</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

## Deficiencies<sup>fn 5</sup> Identified in the Firm's System of Quality Control

We noted the following deficiencies<sup>fn 6</sup> during our review:

1. The firm's quality control policies and procedures addressing continuing professional education (CPE) are not suitably designed or complied with to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. Although the firm's policies require that personnel attain a minimum of 40 hours of CPE courses annually and comply with CPE requirements of the applicable external bodies, it lacks appropriate procedures to determine whether the personnel are in compliance with these requirements. During our review, we noted several personnel who did not comply with CPE requirements of *Government Auditing Standards*. In our opinion, this contributed

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<sup>fn 4</sup> If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of depository institutions with total assets of \$500 million or greater at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>fn 5</sup> Should be tailored to indicate a single deficiency, when applicable.

<sup>fn 6</sup> The deficiencies provided are examples for illustrative purposes only.

to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

2. The firm's quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. The firm requires the use of a non-industry-specific audit program but does not require that program to be tailored to cover requirements of specialized industries or those subject to regulatory bodies. During our review, we noted procedures were not performed to determine if a banking institution met its minimum capital requirements. In our opinion, this contributed to audit engagements in the banking industry that did not conform to professional standards in all material respects.

## Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>fn 7</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass with deficiencies*.

[Name of team captain's firm]

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<sup>fn 7</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

#### **Illustration 4 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation**

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

##### **Report on the Firm’s System of Quality Control**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*,<sup>fn 1</sup>

We<sup>fn 2</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>fn 3</sup> in effect for the year ended June 30, 20XX. Except as subsequently described, our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

##### **Firm’s Responsibility**

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

##### **Peer Reviewer’s Responsibility**

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<sup>fn 1</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee”

<sup>fn 2</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 3</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

### **Required Selections and Considerations**

Engagements selected for review included audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1 and SOC 2 engagements).<sup>fn 4</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### **Deficiency<sup>fn 5</sup> Identified in the Firm's System of Quality Control**

We noted the following deficiency<sup>fn 6</sup> during our review:

1. The firm's quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with applicable regulatory requirements. As noted in the following text, we were unable to select the firm's only audit subject to *Government Auditing Standards* (the Yellow Book). As a result, the firm was not in compliance with the Yellow Book peer review engagement selection requirements.

### **Scope Limitation<sup>fn 7</sup>**

In performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards* (the Yellow Book). As a result, we were

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<sup>fn 4</sup> If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of depository institutions with total assets of \$500 million or greater at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>fn 5</sup> This language should be tailored to indicate a single deficiency, when applicable.

<sup>fn 6</sup> The deficiencies provided are examples for illustrative purposes only.

<sup>fn 7</sup> The scope limitation paragraph provided is an example for illustrative purposes only.

unable to review all the types of engagements required to be selected by the standards established by the Peer Review Board of the AICPA.

### **Opinion**

In our opinion, except for the effects of the deficiency previously described and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review the engagement as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>fn 8</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass with deficiency (with a scope limitation)*.

[Name of team captain's firm]

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<sup>fn 8</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## **Illustration 5 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail**

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

### **Report on the Firm’s System of Quality Control**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*,<sup>fn 1</sup>

We<sup>fn 2</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>fn 3</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm’s Responsibility**

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>fn 1</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee.”

<sup>fn 2</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 3</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

## Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control and the firm's compliance therewith based on our review.

## Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1 and SOC 2 engagements).<sup>fn 4</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

## Significant Deficiencies<sup>fn 5</sup> Identified in the Firm's System of Quality Control

We noted the following significant deficiencies<sup>fn 6</sup> during our review:

1. The firm's quality control policies and procedures do not provide reasonable assurance that the firm will comply with applicable professional standards and will issue reports that are appropriate in the circumstances, as a result of the following significant deficiencies:
  - a. The firm lacks policies and procedures addressing new engagement acceptance to reasonably ensure it only undertakes engagements that it has the capabilities, resources, and professional competence to complete in accordance with applicable professional standards.

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<sup>fn 4</sup> If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of depository institutions with total assets of \$500 million or greater at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>fn 5</sup> This language should be tailored to indicate a single significant deficiency, when applicable.

<sup>fn 6</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.



- b. The firm lacks policies and procedures addressing continuing professional education (CPE) to require its personnel to obtain relevant training to prepare for engagements in new industries or service areas.
- c. Firm leadership has not implemented policies and procedures to provide clear, consistent, and frequent actions and messages from all levels of the firm's management that emphasize the firm's commitment to quality.

In our opinion, the significant deficiencies described previously contributed to an employee benefit plan audit that did not conform to professional standards in all material respects. During our review, we discovered that the firm had undertaken an employee benefit plan audit without performing appropriate acceptance procedures, including the engagement partner obtaining relevant CPE or otherwise obtaining sufficient knowledge to conduct the audit.

- 2. The firm's quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. The courses taken by firm personnel did not provide them with sufficient information about current developments in accounting and auditing matters. In our opinion, this led to firm personnel being unable to appropriately address recent pronouncements and new disclosure requirements and failure to consider new auditing standards and other required communications. This contributed to audit engagements performed under *Government Auditing Standards*, and audits in other industries, that did not conform to professional standards in all material respects.
- 3. The firm's quality control policies and procedures regarding monitoring do not provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The firm's quality control policies and procedures do not
  - a. include an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements.
  - b. require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.
  - c. assign the performance of monitoring the firm's system of quality control to qualified individuals.

## **Opinion**

In our opinion, as a result of the significant deficiencies previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>fn 7</sup> in effect for the year ended June 30, 20XX, was not suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

[Name of team captain's firm]

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<sup>fn 7</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## **Illustration 6 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail With a Scope Limitation**

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

### **Report on the Firm’s System of Quality Control**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*,<sup>fn 1</sup>

We<sup>fn 2</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>fn 3</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm’s Responsibility**

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>fn 1</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee.”

<sup>fn 2</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 3</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

## Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

## Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1 and SOC 2 engagements).<sup>fn 4</sup>

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

## Significant Deficiencies<sup>fn 5</sup> Identified in the Firm's System of Quality Control

In addition, we noted the following significant deficiencies<sup>fn 6</sup> during our review:

1. The firm's quality control policies and procedures provide reasonable assurance that the firm and its personnel will comply with relevant ethical requirements. The firm's quality control policies and procedures require that written independence representations be obtained annually from all partners and personnel and then be reviewed by a partner in the firm assigned overall responsibility for such matters. During our review, we noted that the responsible partner left the firm in the early part of the year and her responsibilities in this area had not been reassigned. In our opinion, this contributed to several of the firm's personnel failing to sign such a representation. Written independence representations were subsequently obtained but there were instances where the firm was not independent with respect to the

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<sup>fn 4</sup> If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of depository institutions with total assets of \$500 million or greater at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>fn 5</sup> This language should be tailored to indicate a single significant deficiency, when applicable.

<sup>fn 6</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

financial statements on which it reported, which caused the engagements to not conform to professional standards in all material respects.

2. The firm's policies and procedures regarding acceptance and continuance of clients are not complied with to provide it with reasonable assurance that its personnel are competent to perform the engagement and have the capabilities to do so. The firm accepted an audit in a specialized industry in which it had no experience or expertise and did not take steps to obtain competency prior to issuing the audit report. In our opinion, this contributed to an employee benefit plan audit that was not performed in accordance with professional standards in all material respects.
3. The firm's use of the standardized planning forms required by its quality control policies and procedures for engagement performance are not consistently complied with to provide reasonable assurance that audit engagements are performed in accordance with professional standards. Despite such forms including audit planning steps for considering preliminary judgments about materiality levels, fraud risk factors, planned assessed level of control risk, analytical review procedures, and conditions that may require an extension of or a modification of tests, we noted several engagements that lacked sufficient evidence of such considerations. In our opinion, this contributed to audits of employee benefit plans and audit engagements in other industries that did not conform to professional standards in all material respects.

### **Scope Limitation**<sup>fn 7</sup>

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of the firm's four offices that divested from the firm during the peer review year. As a result, we were unable to include within our engagement selection any engagements issued by that office. The engagements excluded from our engagement selection process included audit engagements and composed approximately 20 percent of the firm's audit and accounting hours during the peer review year.

### **Opinion**

In our opinion, as a result of the significant deficiencies previously described, and any additional significant deficiencies that might have come to our attention had we been able to review engagements from the divested office as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>fn 8</sup> in effect for the

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<sup>fn 7</sup> The scope limitation paragraph provided is an example for illustrative purposes only.

<sup>fn 8</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

year ended June 30, 20XX, was not suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail (with a scope limitation)*.

[*Name of team captain's firm*]

## **PR-C Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains performance and reporting requirements and application guidance for reviewers engaged to perform an engagement review. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*, and section 200, *General Principles and Responsibilities for Reviewers*. Additionally, the review captain should be familiar with the firm requirements in section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*.

**.02** Engagement reviews are available to firms that perform engagements under the Statements on Standards for Accounting and Review Services (SSARs) and engagements under the Statements on Standards for Attestation Engagements (SSAEs) other than examinations as their highest levels of service. (Ref: par. .A1)

#### **Effective Date**

**.03** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objectives**

**.04** In performing an engagement review, the objectives of the review captain are to

- a.* evaluate whether the engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects and
- b.* report on the evaluation of selected engagements.

### **Definitions**

**.05** A list of terms applicable to this section are defined in paragraph .11 in section 100.

### **Requirements**

#### **Planning**

**.06** The reviewer should perform planning procedures before selecting engagements for review.

**.07** The review captain should obtain from the reviewed firm the following: (Ref: par. .A2)

- a. The number of engagements performed by level of service and industry for each engagement partner
- b. Responses to inquiries about the areas to be addressed in the written representations
- c. The firm's prior
  - i. peer review report,
  - ii. letter of response (if applicable),
  - iii. letter of acceptance,
  - iv. findings for further consideration (FFCs) (if applicable), and
  - v. representation letter

**.08** The review captain should determine if the firm and its personnel are in compliance with licensure requirements of the state boards of accountancy in which the firm and its personnel practice for the peer review year through the issuance dates of the reviewed engagements by verifying the following: (Ref: par. .A2)

- a. The practice unit license (firm license) in the state in which the practice unit is domiciled (main office is located)
- b. Individual (personnel) licenses in the state in which the individual primarily practices public accounting for appropriate personnel on engagements selected

**.09** If the review captain deems it appropriate to test out-of-state licenses, the review captain should expect the firm to provide documentation supporting its compliance with, or approach to, out-of-state licensing requirements. AICPA online CPA mobility provisions may be used to assist the review captain in evaluating the firm's approach to firm and individual out-of-state licensing. (Ref: par. .A3)

**.10** If a firm does not possess the required applicable licenses to perform accounting and auditing engagements anytime during the peer review year through the issuance dates of the reviewed engagements, the review captain must document this on an FFC.

**.11** If an individual with reporting responsibility does not have a current individual license to practice public accounting as required by state boards of accountancy, the review captain should consider the engagements reported on by that individual as not performed or reported on in conformity with applicable professional standards in all material respects (nonconforming).

### **Engagement Selection**

**.12** The review captain should select the following: (Ref: par. .A4–.A5)

- a. One engagement from each of the following levels of service performed by the firm:
  - i. Reviews of financial statements (performed under SSARs)
  - ii. Compilations of financial statements with disclosures (performed under SSARs)
  - iii. Compilations of financial statements that omit substantially all disclosures (performed under SSARs)
  - iv. Engagements performed under the SSAEs other than examinations



- b.* One engagement from each engagement partner responsible for the issuance of reports listed in item (*a*).
- c.* At least two engagements, unless only one is performed

**.13** The review captain should select a preparation engagement only in the following instances:

- a.* It is the only level of service performed by an engagement partner.
- b.* It is the only engagement performed with disclosures.
- c.* It is the only engagement performed without disclosures.
- d.* Doing so is necessary to meet the minimum requirement of two engagements selected for review.

**.14** The review captain should select only the number of engagements needed to meet the requirements in paragraphs .12 and .13.

### *Scope Limitations*

**.15** It is presumed that all engagements subject to the peer review will be included in the scope of the review. In the rare situations in which there are exclusions or other limitations on the scope of the review, a review captain should carefully consider the implications of such exclusions. This includes communicating with the firm and the administering entity (AE) the effect on the review and on the ability of the review captain to issue a peer review report.

### **Evaluation of Engagements**

**.16** The review captain should evaluate each engagement submitted for review. The evaluation should include the following:

- a.* Consideration of the financial statements or information and the related accountant's reports on the engagements performed under the SSARs and SSAEs
- b.* Review of all other documentation required by applicable professional standards on the engagements
- c.* Consideration of the information related to the engagement obtained through the peer review including, but not limited to, engagement profile information and other inquiries

**.17** For each engagement reviewed, the review captain should use peer review checklists and questionnaires to determine if

- a.* the financial statements are fairly presented in accordance with generally accepted accounting principles in all material respects (or when applicable, with a special purpose framework) and
- b.* the firm has performed and reported on the engagement in accordance with the SSARs or SSAEs in all material respects.

### **Identifying, Evaluating, and Aggregating Matters, Findings, and Deficiencies**

**.18** The review captain should determine the relative importance of matters noted during the review, individually and in the aggregate. To assist the review captain in determining the relative importance of matters, the reviewer should consult appendix A, “Common Examples of Noncompliance With Applicable Professional Standards.” (Ref: par. .A6–.A7 and .A28)

**.19** The review captain should document a matter on a matter for further consideration (MFC) form when the review captain identifies one or more “no” answers on peer review engagement checklists that were not resolved to the review captain’s satisfaction.

**.20** The review captain should document a finding on a finding for further consideration (FFC) form when the review captain concludes the submitted engagement was not performed or reported on in conformity with the requirements of the applicable standards.

**.21** The review captain should document a deficiency in the report when the review captain concludes at least one engagement submitted for review was not performed or reported on in conformity with the requirements of the applicable standards in all material respects.

**.22** The review captain should complete a Disposition of Matter for Further Consideration (DMFC) for all MFCs, indicating whether each one was

- a.* included on a specific FFC form (individually or combined with other MFCs) or
- b.* included as a deficiency (individually or combined with other MFCs) in a report with a peer review rating of *pass with deficiencies* or *fail*.

**.23** The review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards in all material respects and remind the firm of any related obligations under professional standards to take appropriate actions. (Ref: par. .A8)

### **Communication Requirements for Closing Meeting and Exit Conference**

**.24** Prior to issuing the report or finalizing MFCs and FFCs, if applicable, the review captain should communicate the conclusions to the firm at a closing meeting. The review captain should discuss the following during the closing meeting: (Ref: par. .A9–.A11)

- a.* Preliminary peer review results, including any matters, findings, or deficiencies, and the type of report to be issued
- b.* The firm’s requirement to respond to the MFCs, FFCs, or deficiencies included in the peer review report
- c.* The firm’s required written representations
- d.* Other suggestions and observations for the firm to consider (Ref: par. .A12)

**.25** The closing meeting should be held within a reasonable timeframe before the firm’s due date to allow enough time for the firm to determine appropriate remediation with respect to findings, and deficiencies, if applicable. (Ref: par. .A13)

**.26** The review captain should review and evaluate the responses on the FFCs and letter of response prior to the exit conference. The review captain should consider the following: (Ref: par. .A14–.A15)

- a. The firm’s response should include the firm’s actions taken or planned to remediate the findings or deficiencies, including timing of the remediation, and additional procedures to ensure the finding or deficiencies are not repeated in the future.
- b. The firm’s action should be feasible, genuine, and comprehensive.
- c. If the firm has acted, the review captain should review documentation of actions taken and consider whether the actions are appropriate. (Ref: par. .A16)

**.27** After the firm has responded to the MFCs, FFCs, and deficiencies in the report and the review captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, the review captain should communicate the results to the firm at an exit conference. The review captain should discuss the following during the exit conference:

- a. The peer review results to be submitted to the AE, including any changes to the information communicated at the closing meeting after consideration of the firm’s responses to MFCs, FFCs, and deficiencies in the report
- b. The appropriateness of the firm’s response
- c. The firm’s representation letter
- d. Potential implications of the peer review acceptance process and their impact on the acceptance and completion of the peer review and on the reviewed firm’s enrollment in the program, including, but not limited to,
  - i. corrective actions for deficiencies and implementation plans for findings, if applicable;
  - ii. recommended report rating changes; and
  - iii. oversight
- e. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable

**.28** The exit conference should be held prior to the review due date.

### **Written Representations**

**.29** The review captain should request management of the firm to provide written representations for the peer review year that are dated as of the date of the peer review report stating the following: (Ref: par. .A17)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.

- c. Management has disclosed to the review captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review. (If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe its remediation of the noncompliance.)
- d. Management has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable.
- e. Management has fulfilled its responsibility to remediate nonconforming engagements, as stated by the firm in the letter of response, if applicable.
- f. Management understands the intended uses and limitations of the quality control materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting and auditing practice.
- g. Management has responded fully and truthfully to the review captain's inquiries.
- h. Management has provided the review captain with all relevant information including all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements) the year under review.
- i. Management has disclosed to the review captain that the firm did not perform any engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) standards that are not subject to PCAOB permanent inspection.
- j. Management acknowledges that failure to properly include the engagements listed in (i) could be deemed a failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, or enforcement body.
- k. Management has provided the review captain communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
- l. Management has disclosed that there are no known limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end, or management should include a summary of the limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

**.30** If a firm fails to discuss significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the review captain, the review captain should immediately consult with the relevant AE because this constitutes a failure to cooperate, and the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated. (Ref: par. .A18)

**.31** If, in addition to the representations required by paragraph .29, the review captain determines that it is necessary to obtain other representations based on the circumstances and nature of the peer review, the review captain should request such other written representations.

### **Reporting on Engagement Reviews**

**.32** To determine the type of report to issue, the review captain should use the results of the evaluation of engagements reviewed. (Ref: par. .A19–.A23)

**.33** The written report in an engagement review should (Ref: par. .A24)

- a.* be dated as of the exit conference date.
- b.* be issued on letterhead of the firm performing the review.
- c.* state at the top of the report the title "Report on the Firm's Conformity With Professional Standards on Engagements Reviewed."
- d.* include headings for each of the following sections:
  - i. Firm's Responsibility
  - ii. Peer Reviewer's Responsibility
  - iii. Deficiency(ies) Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed (if applicable)
  - iv. Scope Limitation (if applicable)
  - v. Conclusion
- e.* state that the review captain reviewed selected accounting engagements of the firm and include the year-end covered by the peer review.
- f.* state that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board of the American Institute of Certified Public Accountants.
- g.* state that the nature, objectives, scope, limitations of, and procedures performed in an engagement review as described in the standards can be found on the AICPA website where the standards are summarized.
- h.* state that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.
- i.* state that the peer reviewer's responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

- j. state that an engagement review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, the review captain expresses no opinion or any form of assurance on that system. (Ref: par. .A25)
- k. in the event of a scope limitation, include an additional paragraph before the last paragraph that describes the relationship of the excluded engagements to the firm's practice, the highest level of service and industry concentration, if any, of the engagements excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review. Tailor the conclusion, as appropriate, to address the scope limitation.
- l. identify the different peer review ratings that the firm could receive.
- m. in a report with a peer review rating of *pass*, state
  - i. that nothing came to the review captain's attention that caused the review captain to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
  - ii. that the firm has received a peer review rating of *pass*.
- n. in a report with a peer review rating of *pass with deficiencies*, state
  - i. that because of the deficiencies previously described, the review captain believes that at least one but not all the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
  - ii. that the firm has received a peer review rating of *pass with deficiencies*.
- o. in a report with a peer review rating of *fail*, state
  - i. that because of the deficiencies previously described, the review captain believes that all the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.
  - ii. that the firm has received a peer review rating of *fail*.
- p. in a report with a peer review rating of *pass with deficiencies* or *fail*,
  - i. include descriptions of the deficiencies (each of these should be numbered).
  - ii. if there are any repeat deficiencies, state that the deficiency was noted in the firm's previous peer review. (Ref: par. .A26–.27)
  - iii. identify the level of service for any deficiencies. If the deficiency is industry specific, also identify the industry.

### **Submission of Peer Review Documentation to the AE by the Review Captain**

**.34** Within 30 days of the exit conference date or by the firm's peer review due date, whichever date is earlier, the review captain should submit to the AE or complete electronically, as applicable, the following documents: (Ref: par. .A28)

- a. Report and letter of response, if applicable
- b. Review Captain Summary
- c. Review summary
- d. FFC forms, if applicable
- e. MFC forms, if applicable

- f. DMFC, if applicable
- g. Firm's representation letter

## **Application and Other Explanatory Material**

### **Scope of This Section (Ref: par. .01–.02)**

**.A1** Firms eligible to have an engagement review may elect to have a system review. Refer to section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, for the requirements of a system review.

### **Planning (Ref: par. .06–.11)**

**.A2** Acceptable documentation includes an original or copy of the license, print-out from an online license verification system, correspondence from the licensing authority, or other reasonable alternative documentation. The review captain's judgment may be needed to determine what alternative documentation is reasonable.

**.A3** The review captain may verify an out-of-state practice unit license or an out-of-state individual license on an individual engagement basis when that engagement is selected for review and was performed by the reviewed firm in another state requiring a firm or individual license. The decision to perform further testing is based on the reviewer's evaluation of the firm's responses to inquiries.

### **Engagement Selection (Ref: par. .12)**

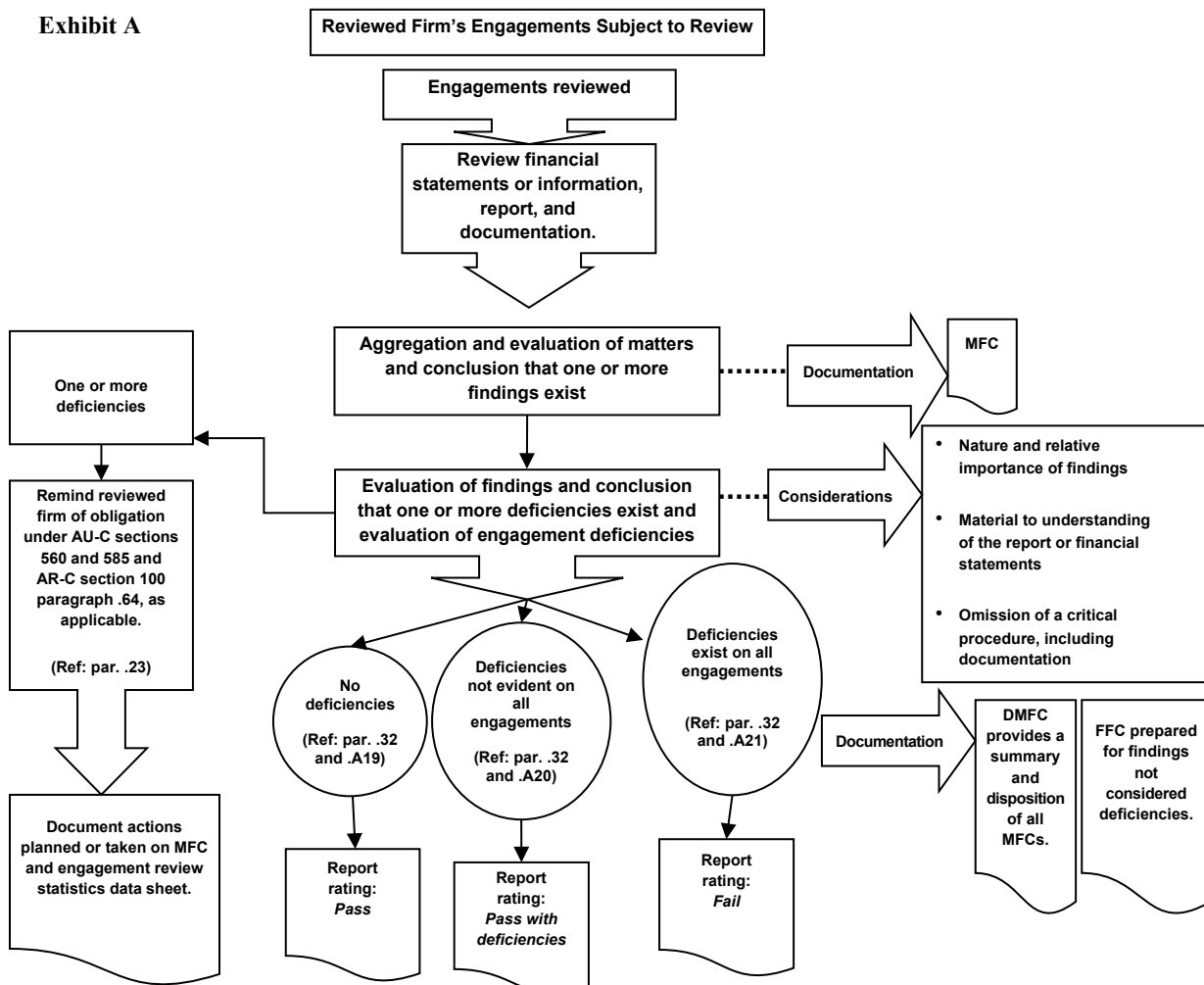
**.A4** The objective of the engagement selection requirements is to select one engagement from each engagement partner and one engagement from each level of service listed in paragraph .12a for the firm.

**.A5** Engagement selection may also include consideration of industries.

### **Identifying, Evaluating, and Aggregating Matters, Findings, and Deficiencies (Ref: par. .18, .23–.24)**

**.A6** Exhibit A shows a broad understanding of the peer review process, from the review of submitted engagements to the determination of a matter, finding, or deficiency. It also illustrates the aggregation of these items, their documentation, and their potential impact on the report rating.

**Exhibit A**





**.A7** One or more matters may be elevated to a finding or deficiency. To determine if a matter should be elevated, the review captain should consider the matter's nature and relative importance, if the matter is material to the understanding of the report or financial statements, or if the matter represents the omission of a critical procedure including documentation.

**.A8** Although it is ultimately the firm's responsibility, the review captain and firm may collaborate to determine what remediation is necessary in the circumstances. Review captains or AEs should not require firms to perform omitted procedures, reissue accounting reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make.

### **Communication Requirements for Closing Meeting and Exit Conference (Ref: par. .24–.28)**

**.A9** The closing meeting and exit conference may be attended by representatives of the AE, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities.

**.A10** The purpose of a separate closing meeting and exit conference is to provide the firm with sufficient time to determine appropriate responses to the matters, findings, or deficiencies identified and to provide the review captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined.

**.A11** Team members or specialists may participate in or be available for the closing meeting and exit conference. This may be useful when the review captain does not have the experience to review the industry of an engagement that was reviewed by a team member.

**.A12** Examples of other suggestions and observations include implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement.

**.A13** A reasonable timeframe is typically 30 days.

**.A14** The purpose of the firm's response on the FFC or in the letter of response is for a firm to document the specific actions that will be taken to correct findings or deficiencies noted by the review captain.

**.A15** The AE's peer review committee (committee) may require the firm to make and document appropriate considerations regarding nonconforming engagements as a condition of acceptance of the peer review. The firm's response may affect other monitoring actions the committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

**.A16** Examples of firm actions taken in response to nonconforming engagements may include, but are not limited to,

- a. omitted procedures performed (including documentation),
- b. reissued report and financial statements, or
- c. notification to users to discontinue use of previously issued reports.

### **Written Representations (Ref: par. .29–.31)**

**.A17** Exhibit A, “Illustrative Representation Letter,” in section 320 provides an illustrative example of a firm’s representation letter.

**.A18** Examples of how a review captain may discover significant issues include the following:

- a. The review captain reviews the referral database and identifies a referral specific to the firm or a professional within the firm.
- b. The AE provides the review captain with a referral.
- c. The review captain identifies information about significant issues within a firm from a news outlet or publicly available website (for example, via the PCAOB).

### **Reporting on Engagement Reviews (Ref: par. .32–.33)**

**.A19** A report with a peer review rating of *pass* is issued when the review captain concludes that the engagements submitted for review were performed and reported on in conformity with the requirements of applicable professional standards in all material respects.

**.A20** A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes that at least one but not all the engagements submitted for review contain a deficiency.

**.A21** A report with a peer review rating of *fail* is issued when the review captain concludes all the engagements submitted for review contain a deficiency.

**.A22** The review captain should not expand scope beyond the original selection of engagements in an effort to change the conclusion from a peer review rating of *fail* in these circumstances.

**.A23** In the event of a scope limitation, a report with the applicable peer review rating (*with a scope limitation*) is issued.

**.A24** Exhibit B, “Illustrative Examples of a Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed,” contains example reports that may be tailored by the reviewer to meet the requirements described in paragraph .33.

**.A25** An engagement review does not include tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system review. Therefore, an engagement review does not provide the review captain with a basis for expressing any form of assurance on the firm’s system of quality control for its accounting practice.

**.A26** The following is an example of a repeat deficiency; a review captain documented a disclosure deficiency or finding in the prior review, and the same disclosure deficiency is documented in the current review.

**.A27** If a repeat deficiency has occurred on two or more prior reviews, the review captain should state in the current report that “this deficiency was noted on previous reviews.”

**Submission of Peer Review Documentation to the AE by the Review Captain (Ref: par. .34)**

**.A28** All peer review working papers are subject to oversight procedures and may be requested later.

## ***Appendix A — Common Examples of Noncompliance With Applicable Professional Standards***

**.A29** The following is a list of common areas of noncompliance with applicable professional standards. This is not an all-inclusive list, and the reviewer should decide if the noncompliance is a matter, finding, or deficiency as described in paragraph .13 and by using the following guidance. (Ref: par. .13 and .A6)

### **List of Matters and Findings That Generally Would Not Result in a Deficiency**

#### **Reports**

- Omission of phrases or use of phrases not in conformity with the applicable professional standards for the report issued
- Compilation reports that failed to include the paragraph regarding the omission of supplemental information, as applicable in the circumstances
- Reports that reflected financial statement titles and terminology not in accordance with applicable professional standards
- Failure to explain the degree of responsibility the accountant is taking with respect to supplementary information

#### **Financial Statement Measurement**

- Types of revenues and expenses not presented and disclosed in accordance with applicable professional standards (for example, freight revenue and related shipping and handling expenses)
- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) that are properly reported on but contain inconsistencies between the report and the financial statements, where the actual basis is readily determinable

#### **Presentation and Disclosure**

- Supplementary information not clearly segregated or marked as supplementary and departures from standard report presentation with respect to supplementary information
- Reviewed financial statement presentation that is inappropriate for the type of not-for-profit organization being reported on
- Compiled financial statements prepared using a special purpose framework reflecting titles normally associated with financial statements prepared under GAAP when the applicable financial reporting framework is not clearly identified

- Failure to disclose the accounting policy related to advertising costs in the notes to the financial statements
- Omission of the disclosure of the method of income recognition as required by applicable professional standards
- Misclassification of items on the statement of cash flows
- Omitted or inadequate disclosures related to account balances or transactions (for example, disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long-term debt, related-party transactions, or concentrations of credit risk)
- Bank overdrafts not properly presented on the balance sheet, failure to accrue income taxes where the accrual and provision are not expected to be significant to the financial statements taken as a whole, and missing insignificant disclosures in the financial statements
- Financial statement titles that were inconsistent with the accountant's report

**Statements on Standards for Accounting and Review Services Procedures (Including Documentation)**

- The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of the applicable professional standards

**List of Matters and Findings That Generally Would Result in a Deficiency**

**Reports**

- Issuance of a review report when the accountant is not independent
- Inappropriate references to GAAP in the accountant's report when the financial statements were prepared using a special purpose framework
- Failure to disclose the lack of independence in a compilation report
- Failure to appropriately modify a report for a scope limitation or significant departure from the basis of accounting used for the financial statements
- Failure to adopt current applicable professional standards, or the accountant's report does not contain the critical elements of the current applicable professional standards
- Failure to disclose, in the accountant's report, significant departures from professional standards (examples include omission of significant income tax provisions on interim financial statements, omission of significant disclosures

related to defined employee benefit plans, or omission of required supplemental information for a common-interest realty association)

- Failure to indicate on the accountant's report the periods covered by the report, and they cannot be determined from reading the financial statements
- Failure to include a separate paragraph for departures from the financial reporting framework, including dollar amounts or a statement that the impact was not determined
- A compilation report that fails to include all the reasons why the accountant is not independent when such reasons are presented (for example, the report provides only one of three reasons)
- A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions
- For a compilation engagement, failure to disclose the omission of substantially all disclosures or the statement of cash flows (if applicable) required by the applicable financial reporting framework
- For a compilation or review engagement performed in accordance with Statements on Standards for Accounting and Review Services (SSARSS), failure to appropriately modify the report in accordance with professional standards, when the financial statements are prepared in accordance with a special purpose framework
- For preparation engagements, failure to issue a disclaimer report, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that "no assurance is provided"

### **Financial Statement Measurement**

- Investments in marketable securities presented at cost and not fair market value, resulting in a material misstatement to the balance sheet
- Inclusion of material balances that are not appropriate for the basis of accounting used
- Failure to include material amounts or balances necessary for the basis of accounting used (examples include omission of accruals, failure to amortize a significant intangible asset, failure to provide for losses or doubtful accounts, or failure to provide for deferred income taxes)
- Improper accounting of a transaction (for example, recording a capital lease as an operating lease)

- Use of an inappropriate method of revenue recognition

### **Presentation and Disclosure**

- Disclosure of omission of substantially all disclosures (in a compilation without disclosures) when, in fact, substantially all disclosures have been included
- Misclassification of transactions or balances and omission of significant required disclosures related to financial statement balances on transactions
- Failure to disclose that compiled financial statements that omit substantially all disclosures were prepared using a special purpose framework and the basis of accounting is not readily determinable from reading the accountant's compilation report
- For a preparation engagement, failure to include, either on the face of the financial statements or in a note to the financial statements, a description of the financial reporting framework when the financial statements have been prepared in accordance with a special purpose framework
- For a preparation engagement, failure to disclose the omission of substantially all disclosures or the statement of cash flows (if applicable) required by the applicable financial reporting framework
- For a preparation engagement, failure to disclose a material misstatement in the financial statements when the accountant prepares financial statements that contain a known departure or departures from the applicable financial reporting framework
- Significant departures from the financial statement formats prescribed by industry accounting and audit guides
- Omission of disclosures related to significant accounting policies applied (GAAP or special purpose framework)
- Failure to include a summary of significant assumptions in a financial forecast or projection
- Failure to segregate the statement of cash flows into the components of operating, investing, and financing
- Failure to disclose the cumulative effect of a change in accounting principles
- Failure to disclose significant related-party transactions
- Omission of actual financial statements that are referred to in the report

- Failure to include one or more statements of cash flows when comparative results of operations are presented in financial statements prepared in accordance with GAAP

**SSARSs Procedures (Including Documentation)**

- Failure to establish an understanding with management regarding the services to be performed through a written communication (for example, an engagement letter)
- Failure to document significant findings or issues
- Failure to document communications to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention
- For review engagements, failure to perform or document analytical and inquiry procedures, including the matters covered, and the development of and basis for the accountant's expectations
- For review engagements, failure to document significant unusual matters and their disposition
- For review engagements, failure to obtain a client management representation letter
- Failure to obtain all required signatures on the engagement letter (or other suitable written agreement)



***Exhibit B — Illustrative Examples of a Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed***

**.A30** This exhibit contains various illustrations of a peer reviewer’s report on the reviewed firm’s conformity with professional standards on engagements reviewed.

**Illustration 1 — A Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass**

**Illustration 2 — A Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass With Deficiencies**

**Illustration 3 — A Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Fail**

### **Illustration 1 — A Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass**

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

#### **Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed<sup>fn 1</sup>**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*:<sup>fn 2</sup>

We<sup>fn 3</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>fn 4</sup> issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an engagement review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

#### **Firm’s Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>fn 1</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm’s Conformity With Professional Standards on an Engagement Reviewed.”

<sup>fn 2</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee.”

<sup>fn 3</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 4</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

### **Peer Reviewer's Responsibility**

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An engagement review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

### **Conclusion**

Based on our review, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co.<sup>fn 5</sup> issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass*.

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

*[or]*

*[Name], Review Captain [for committee-appointed review team review]*

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<sup>fn 5</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## **Illustration 2 — A Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass With Deficiencies**

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

### **Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed<sup>fn 1</sup>**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*:<sup>fn 2</sup>

We<sup>fn 3</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>fn 4</sup> issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an engagement review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

### **Firm’s Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>fn 1</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm’s Conformity With Professional Standards on an Engagement Reviewed.”

<sup>fn 2</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee.”

<sup>fn 3</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 4</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

## Peer Reviewer's Responsibility

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An engagement review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

## Deficiencies<sup>fn 5</sup> Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed<sup>fn 6</sup>

We noted the following deficiencies<sup>fn 7</sup> during our review:

1. On one review engagement of a manufacturing client, we noted that the accompanying accountant's report was not appropriately modified when the financial statements did not appropriately present or disclose matters in accordance with industry standards.
2. On a review engagement, we noted that the firm failed to obtain a management representation letter, and its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures. These deficiencies were identified on the firm's previous review.

## Conclusion

Because of the deficiencies previously described, we concluded that at least one but not all of the engagements submitted for review by XYZ & Co.<sup>fn 8</sup> issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass with deficiencies*.

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

*[or]*

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<sup>fn 5</sup> The wording should be tailored to indicate a single deficiency, when applicable.

<sup>fn 6</sup> The wording should be tailored to indicate a single engagement reviewed, when applicable.

<sup>fn 7</sup> The deficiencies provided are examples for illustrative purposes only.

<sup>fn 8</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

John Brown, Review Captain [*for committee-appointed review team review*]

### **Illustration 3 — A Reviewer’s Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Fail**

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

#### **Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed<sup>fn 1</sup>**

*[Exit Conference Date]*

To the Partners of *[or other appropriate terminology]* XYZ & Co. and the Peer Review Committee of the *[insert the name of the applicable administering entity]*<sup>fn 2</sup>

We<sup>fn 3</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>fn 4</sup> issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an engagement review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

#### **Firm’s Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

#### **Peer Reviewer’s Responsibility**

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<sup>fn 1</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm’s Conformity With Professional Standards on an Engagement Reviewed.”

<sup>fn 2</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of *[or appropriate terminology]* XYZ & Co. and the National Peer Review Committee.”

<sup>fn 3</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 4</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An engagement review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

**Deficiencies<sup>fn 5</sup> Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed<sup>fn 6</sup>**

We noted the following deficiencies<sup>fn 7</sup> during our review:

1. Our review disclosed several failures to adhere to applicable professional standards in reporting on material departures from generally accepted accounting principles (GAAP) and in conforming to standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. The compilation and review engagements were in the construction and manufacturing industries, respectively. In addition, the firm did not obtain management representation letters on review engagements.
2. During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework. This deficiency was noted in the firm's previous peer reviews.
3. In the construction industry compilation engagements that we reviewed, disclosures of material lease obligations as required by GAAP were not included in the financial statements, and the omissions were not disclosed in the accountant's reports.
4. During our review of the firm's engagements to prepare financial statements, we noted the firm did not issue a disclaimer that made clear no assurance was provided on the financial statements and also did not indicate that no assurance was provided on each page of the financial statements.

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<sup>fn 5</sup> This wording should be tailored to indicate a single deficiency, when applicable.

<sup>fn 6</sup> This wording should be tailored to indicate a single engagement reviewed, when applicable.

<sup>fn 7</sup> The deficiencies provided are examples for illustrative purposes only.



## Conclusion

Because of the deficiencies previously described, we concluded that all the engagements submitted for review by XYZ & Co.<sup>fn 8</sup> issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

Smith, Jones and Associates

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

*[or]*

John Brown, Review Captain *[for committee-appointed review team review]*

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<sup>fn 8</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## **PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains general principles and responsibilities for reviewed firms. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*.

#### **Effective Date**

**.02** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objective**

**.03** The objective of the reviewed firm is to enhance its effectiveness and contribute to the quality of our profession by undergoing a peer review performed in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board (the board) of the American Institute of Certified Public Accountants.

### **Definitions**

**.04** A list of terms applicable to this section are defined in paragraph .11 of section 100.

### **Requirements**

#### **Ethical Requirements Relating to a Peer Review**

**.05** A reviewed firm should maintain independence in fact and appearance from the reviewing firm or firms, reviewers, and any other individuals who participate in or are associated with the peer review.

#### **Preparing for a Peer Review**

##### *Engage a Reviewer*

**.06** The firm should timely engage a reviewer to perform the peer review in accordance with the standards. The firm and the captain should agree on the commencement and anticipated exit conference dates. (Ref: par. .A1–.A2)

**.07** The firm should consider whether the qualifications of the captain and team members, if applicable, are commensurate with the nature of the firm's practice.

**.08** The firm should designate a partner or manager from the firm as the peer review contact. The peer review contact should be knowledgeable about the nature of the firm's practice and is accountable for providing complete and accurate information to the peer review team and the administering entity (AE).

#### *Licensure*

**.09** It is the reviewed firm's responsibility to understand and comply with its licensing requirements. Therefore, it should be prepared to respond to the reviewer's inquiries and requests for documentation. This is also important for out-of-state firm and individual licenses when licensing requirements may be more difficult to identify and understand.

#### *Written Representations*

**.10** Written representations should be provided to the captain on firm letterhead from members of management of the firm whom the captain or AE believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. (Ref: par. .A3–.A4)

**.11** The written representations should be in the form of a representation letter on firm letterhead, addressed to the captain, and signed by a member of management described in paragraph .10, as of the date of the peer review report. (Ref: par. .A5)

### **Cooperating and Complying With the Requirements of the Program**

**.12** A firm should cooperate with the reviewer, AE, and AICPA Peer Review Board (the board) in all matters related to the program. (Ref: par. .A6–.A7)

**.13** A firm should ensure its peer review is submitted in compliance with the requirements of the program.

- a. A firm is considered not cooperating and its enrollment is subject to termination from the program for reasons including, but not limited to, the following: (Ref: par. .A7)
  - i. Once the review has commenced, not responding to inquiries or providing information necessary to ensure the review is accepted and completed
  - ii. Not providing documentation including the representation letter, quality control documents, engagement working papers, and all elements of the firm's system of quality control
  - iii. Not responding to matters for further consideration (MFCs) or findings for further consideration (FFCs) timely
  - iv. Limiting access to offices, personnel, or other once the review has commenced

- v. Not facilitating the arrangement for the exit conference on a timely basis
  - vi. Failing to timely file a letter of response, if applicable
  - vii. Failing to cooperate during oversight
  - viii. Failing to timely agree to and complete required corrective actions or implementation plans
  - ix. Failing to ensure that the firm's peer review is submitted to the AE timely
- b. A firm is considered not complying with the requirements of the program and its enrollment is subject to termination from the program for reasons including, but not limited to, the following:
- i. Withholding information significant to the peer review (Ref: par. .A8)
  - ii. Failing to correct deficiencies or significant deficiencies after consecutive non-pass (*pass with deficiencies* or *fail*) peer review reports (Ref: par. .A9)
  - iii. Failing to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the same peer review
  - iv. Receiving a peer review report with deficiencies or significant deficiencies that indicate the firm is so seriously deficient in its performance that the committee believes educational and remedial corrective actions or implementation plans would not be adequate
  - v. Failing to provide the AE with a substantive response, and the firm does not revise its response or provides additional responses that are not substantive as determined by the AE (Ref: par. .A10)
  - vi. Failing to provide substantive responses during the AE's process of determining if information provided by a firm was erroneous or omitted, which results in a significant change in the planning, performance, evaluation of results, or peer review report (Ref: par. .A11)
  - vii. Failing to timely notify the AE that it is performing a type of engagement or engagement in an industry that the firm had previously represented by written communication to the AE that it was no longer performing and had no plans to perform, in response to a related corrective action or implementation plan and the corrective action or implementation plan was eliminated by the AE based on that representation

**.14** If a firm is deemed not cooperating or not complying with the requirements of the program due to the reasons described in paragraph .13, it should be notified by a delivery method providing proof of delivery (including electronic means) that the board will appoint a hearing panel to consider whether the firm's enrollment in the program should be terminated in accordance with fair procedures established by the board.

**.15** If a firm has AICPA members, the fact that the firm's enrollment in the program has been terminated, whether with or without a hearing, should be published in such form and manner as AICPA Council may prescribe.

#### *Reenrollment in the Program*

**.16** To reenroll in the program, a firm should submit a request to reenroll in the program through an AE. If the firm was dropped or terminated from the program, the firm should address and remediate the circumstances that caused the firm to be dropped or terminated to be considered for reenrollment in the program. Common criteria for reenrollment include, but are not limited to, submitting evidence to the AE or hearing panel that demonstrates the following: (Ref: par. .A12–.A14)

- a. Completion of the requested action in compliance with the requirements of the program
- b. Changes in the firm’s system of quality control (such as personnel changes or procedural changes, methodologies to identify the complete population of engagements performed, access to technical resources or membership in quality centers, and voluntary changes in the practice or types of industries or engagements performed)
- c. Competency through completion of relevant CPE, training, or competency assessments
- d. Assessment of quality in the performance of engagements through internal or external monitoring results (such as pre-issuance reviews, post-issuance reviews, and internal inspections that reflect that engagements are materially performed and reported on in conformity with applicable professional standards)

**.17** If reenrollment is approved and the firm is past its next peer review due date, the firm should complete its subsequent peer review

- a. within 90 days of reenrolling if the firm’s most recent peer review is completed,
- b. within 90 days of the AE’s report acceptance body (RAB) determining that actions taken are satisfactory to complete a commenced peer review, or
- c. by a later date set by the hearing panel or the AE.

### **Publicizing Peer Review Information**

**.18** The firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until the date of acceptance. (Ref: par. .A15–.A20)

### **Acquisitions and Divestitures**

**.19** If a firm has had an acquisition of another practice or a portion thereof or a divestiture of a significant portion of its practice during or subsequent to its peer review year, the reviewed firm or the reviewer should consult with the relevant AE and AICPA staff prior to the commencement of the review to consider the appropriate scope of the review or other actions that should be taken. (Ref: par. .A21–.A22)

### **Resigning From the Program**

**.20** A firm may resign from the program when it is no longer performing engagements that require the firm to undergo a peer review. To resign from the program, a firm should submit a

written request to the AE before the firm's peer review has commenced. A firm should consult with its state board of accountancy to determine if there are rules that require enrollment in peer review even if the firm does not perform services that include issuing reports.

**.21** A firm enrolled in the program that has been notified that it is the subject of a hearing should not resign until the matter causing the hearing has been resolved.

**.22** To resign from the program once a firm's peer review has commenced but has not been completed, a firm should submit a letter pleading guilty, acknowledging it has not cooperated with the program, waiving its right to a hearing, and for firms with AICPA members, agreeing to allow the AICPA to publish, in such form and manner as the AICPA Council may prescribe, the fact that the firm has resigned from the program before completion of its peer review, evidencing that it has not cooperated with the program. In addition, if (a) the firm has been notified of the reviewer's or AE's intent to issue or require a report with a peer review rating of *pass with deficiencies* or *fail* or (b) the reviewer or AE has knowledge of the discovery of an engagement that was not conducted in accordance with professional standards on which the firm must take, or would likely be required to take, action in accordance with professional standards, then the fact that the situation in item (a) or (b) existed would also be published for firms with AICPA members. If the firm does not sign the letter pleading guilty and waiving its right to a hearing, the firm will be referred to a board hearing panel. The panel will consider terminating the firm's enrollment due to not cooperating with the program. (Ref: par. .A23)

### **Natural Disasters and Other Catastrophic Events**

**.23** If a firm experiences a natural disaster or other catastrophic event that affects its ability to comply with the requirements of the standards, the firm should consult with its AE.

**.24** If the situation affected both the firm's operations and its ability to comply with peer review requirements, the firm should discuss the following with the AE:

- a. The firm's current peer review year-end and due date
- b. The extent of damage to the firm's offices and the working papers subject to peer review, if applicable (This would include off-site storage or data-retention facilities that house working papers subject to peer review.)
- c. The availability, or lack thereof, of personnel that performed engagements subject to peer review
- d. The firm's ability to continue operating and performing engagements subject to peer review
- e. If known, whether the firm's scheduled peer reviewer was also affected
- f. The amount of time the firm deems necessary before it would be ready to undergo a peer review

The AE should assist in determining whether there could be a possible scope limitation due to the exclusion of any affected engagements or offices, the need for a change in year-end or an extension of due date, and the effect on the firm's continuing peer review cycle. These situations will be considered on a case-by-case basis.

**.25** If the firm's scheduled reviewer was directly affected by a natural disaster or other catastrophic event and may no longer be able to perform the review, the firm should consult with its AE. The AE will assist the firm in determining whether it is appropriate to extend the peer review due date or if the firm should engage another reviewer to perform its peer review. (Ref: par. .A24)

## **Application and Other Explanatory Material**

### **Preparing for a Peer Review**

*Engage a Reviewer (Ref: par. .06)*

**.A1** *Timely* ordinarily means performing the review within three to five months after the peer review year-end; the firm may need to contact its reviewer in advance to meet this timeframe. The review should be planned to provide the review team with sufficient time to perform the review and to provide the firm with sufficient time prior to the exit conference to determine appropriate responses to matters, findings, deficiencies, and significant deficiencies identified during the review.

**.A2** The terms and conditions of the peer review may be summarized in an engagement letter between the reviewed firm and the reviewing firm.

*Written Representations (Ref: par. .10–.11)*

**.A3** Written representations are necessary information that describe matters significant to the peer review to assist in the planning, performance of, and reporting on the peer review. The specific representations are detailed in section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*, and section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*, as applicable.

**.A4** Members of management responsible for and knowledgeable about the required representations normally include the managing partner and partner in charge of the firm's system of quality control.

**.A5** The representation letter is addressed to the captain because the captain is concerned with events occurring during the peer review period and through the date of the peer review report that may require an adjustment to the report or other peer review documents.

### **Cooperating and Complying With the Requirements of the Program (Ref: par. .12–.15)**

**.A6** Cooperation includes completing actions timely and in compliance with the requirements of the program.

**.A7** A firm is considered not cooperating and is subject to being dropped from the program by the board for reasons including, but not limited to, failing to do the following:

- a. Timely file requested information with the AE, prior to the commencement of the peer review.
- b. Timely submit requested information to the reviewer that is necessary to plan or perform the firm's peer review, prior to the commencement of the peer review.
- c. Have a peer review by the due date.
- d. Accurately represent its accounting and auditing practice, as defined by the program, after notifying its AE that it does not perform engagements that require the firm to have a peer review.
- e. Timely pay in full the fees and expenses of the review team formed by an AE, or timely pay all fees related to the administration of the program that have been authorized by the governing body of an AE and the AICPA.

If a firm is deemed not cooperating as a result of any of the failures described, it will be notified by a delivery method providing proof of delivery (including electronic means) that its enrollment will be dropped after 30 days if the firm does not cooperate. The board may drop a firm's enrollment with or without holding a hearing. A firm whose enrollment has been dropped or terminated from the program may appeal within 30 calendar days of notification pursuant to fair procedures established by the board. If a firm's enrollment is dropped or terminated for not accurately representing its accounting and auditing practice, or for subsequent failure to submit a peer review by a required due date, this may result in an investigation of a possible violation by a regulatory, monitoring, or enforcement body.

**.A8** Information significant to the peer review may include, but is not limited to, the following:

- a. 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
- b. Omission or misrepresentation of information relating to the reviewed firm's 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, and examinations of service organizations (SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements)

**.A9** A firm should be notified after receiving a non-pass (*pass with deficiencies* or *fail*) peer review report of its responsibility to correct the deficiencies or significant deficiencies. This notification will be via a delivery method providing proof of delivery (including electronic means).

**.A10** The AE has the authority to determine if a firm's response is substantive.

**.A11** The AE has the authority to determine if erroneously provided or omitted information by a firm that results in a significant change in the planning, performance, evaluation of results, or peer review report is a matter of not cooperating with the program.

*Reenrollment in the Program (Ref: par. .16-.17)*



**.A12** Reenrollment in the program is subject to evaluation by either the AE or a hearing panel of the Peer Review Board. The hearing panel or AE's peer review committee may also require other actions as a condition of reenrollment.

**.A13** Determination of final acceptance or completion of a review is subject to the AE's RAB.

**.A14** Reenrollment decisions subject to approval by a hearing panel of the board include, but are not limited to, the following:

*a.* Drops for

- i. not accurately representing the reviewed firm's accounting and auditing practice as defined by the AICPA Standards for Performing and Reporting on Peer Reviews
- ii. failing to submit the reviewed firm's peer review by a required due date after being dropped for the preceding reason and subsequently being allowed to reenroll

*b.* Terminations for

- i. omitting or misrepresenting information related to the reviewed firm's accounting and auditing practice as defined by the AICPA Standards for Performing and Reporting on Peer Reviews
- ii. failing to receive a *pass* report rating subsequent to receiving notification via certified mail, or other delivery method providing proof of delivery (including electronic means), after a peer review rating of *pass with deficiencies* or *fail*
- iii. failing to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the reviewed firm's most recent peer review

**Publicizing Peer Review Information (Ref: par. .18)**

**.A15** The firm's AE and AICPA staff may disclose to third parties the following information:

- a.* The firm's name and address
- b.* Whether the firm is enrolled in the program
- c.* The date of acceptance and period covered by the firm's most recently accepted peer review
- d.* The most recent date that the firm's enrollment in the program has been dropped or terminated, if applicable

This information is available in the AICPA public file for all firms enrolled in the program.

**.A16** The firm may authorize its AE or AICPA staff to make its peer review results available to the public or to state boards of accountancy. Peer review results include, as applicable, the following:

- a. Peer review report
- b. Letter of response
- c. Acceptance letter
- d. Letters signed by the reviewed firm indicating that the peer review documents have been accepted with the understanding that the reviewed firm agrees to take certain actions
- e. Letter signed by the AE notifying the reviewed firm that certain required actions have been completed

The authorization ordinarily occurs during the firm's peer review scheduling process when the firm may choose not to opt out of the program's process for voluntary disclosure through Facilitated State Board Access (FSBA).

**.A17** A firm may voluntarily become a member of one of the AICPA's audit quality centers or sections that require, as a condition of membership, making the firm's peer review results (described in paragraph .A16) open to public inspection.

**.A18** When the firm's peer review is ongoing, the firm may give the AE or AICPA staff written authorization to provide specific information to third parties (in addition to the information in paragraph .A15). The following (or similar) types of objective information about the review may be provided, if known:

- a. The date the review is or was scheduled to take place
- b. The name of the reviewing firm, team captain, or review captain
- c. If the fieldwork on the peer review has commenced
- d. The date the exit conference was expected to or did occur
- e. A copy of any extension approval letters
- f. Whether the peer review working papers have been received by the AE
- g. Whether a must-select engagement was included in the scope as required by the standards
- h. If a technical review is in process
- i. Whether the review has been presented for acceptance
- j. The date the review is expected to be presented for acceptance
- k. The specific overdue letters (such as, but not limited to, scheduling the peer review or completion of remedial actions) requested by third parties

**.A19** When there is evidence of an open ethics investigation and the firm knowingly makes an informed, voluntary, written waiver of the right to confidentiality, in those circumstances, AICPA Peer Review staff may provide information to the AICPA Professional Ethics Division. Information available for disclosure about the firm includes, but is not limited to, the following:

- a. Fieldwork commencement date
- b. Exit conference date
- c. Review acceptance date
- d. Levels of service and industries included in the firm's peer review information for prior or current peer reviews

- e. Levels of service and industries included in prior or current peer reviews and those determined not to be in conformity with professional standards in all material respects
- f. Signed confirmations by a firm representative that the enrolled firm did not perform any services or issue reports that would require the firm to undergo a peer review
- g. Other similar information related to a prior or current peer review

**.A20** The firm may give the AE or AICPA staff other written requests to provide information or documents to a third party, which will be considered on a case-by-case basis by the AE or the AICPA. However, neither the AE nor the AICPA will provide information that is subjective (due to different definitions or interpretations by third parties), even with firm authorization, such as the following:

- a. Stating solely that the review is “in process” or responding to an inquiry solely regarding what the “general status” of a peer review is
- b. The peer review report rating prior to the peer review’s acceptance
- c. Whether there are indications that the firm, reviewing firm, team captain, or review captain are cooperating (or not cooperating) with the AICPA or AE
- d. An indication of the quality or completeness of peer review working papers received by the AE
- e. Reasons why peer review working papers, implementation plans, or corrective actions are late
- f. Whether a firm is close to submitting documents or completing implementation plans or corrective actions
- g. Reasons for or the likely outcome if the firm is going through fair procedures to determine whether it is cooperating with the AICPA or the AE

### **Acquisitions and Divestitures (Ref: par. .19)**

**.A21** A divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance with the system of quality control for reports issued under the firm’s name during that year.

**.A22** Submission of the “Firm Structure Change” form may be considered a consultation with the AE and AICPA staff.

### **Resigning From the Program (Ref: par. .22)**

**.A23** The submission by the firm of a request to resign from the program once its peer review has commenced but has not been completed is considered not cooperating with the AE and may lead to the termination of the firm’s enrollment in the program by a hearing panel of the board.

### **Natural Disasters and Other Catastrophic Events (Ref: par. .25)**

**.A24** If a reviewer was affected by a natural disaster or other catastrophic event and is not able to complete a scheduled review, the AE will consider the following:

- a.* The firm's peer review year-end and the timing of when engagements falling within the peer review year are performed
- b.* The length of time between when the situation arose and the firm's due date
- c.* The amount of time that the currently scheduled peer reviewer or review team would need before being able to perform the peer review
- d.* Whether the firm has very specialized industries or types of engagements

## **PR-C Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains requirements and application material for firms undergoing a system review. The requirements and guidance in this section supplement the requirements and application guidance in section 100, *Concepts Common to All Peer Reviews*, and section 300, *General Principles and Responsibilities for Reviewed Firms*.

**.02** Firms that perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under PCAOB standards must have a system review. (Ref: par. .A1–.A2)

#### **Effective Date**

**.03** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objective**

**.04** The objective of the reviewed firm is to enhance its effectiveness and contribute to the quality of our profession by undergoing a system review performed in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board (the board) of the American Institute of Certified Public Accountants. (Ref: par. .A3)

### **Definitions**

**.05** A list of terms applicable to this section are defined in paragraph .11 of section 100.

### **Requirements**

#### **Planning**

**.06** The firm should make the following information available to the reviewer:

- a.* Information regarding the firm’s audit and accounting practice for each engagement with a period end date during the peer review year (or each financial forecast, financial projection, or agreed-upon procedures engagement with a report dated

during the peer review year) and that was issued by the commencement date of the review to allow the reviewer to be able to identify

- i. the level of service,
  - ii. the number of audit or accounting hours (actual, if available, or estimated),
  - iii. the engagement partner,
  - iv. the industry,
  - v. whether an engagement was an initial engagement,
  - vi. the office (if applicable), and
  - vii. whether an engagement was a must-select or must-cover engagement (if applicable) (Ref: par. .A4)
- b. A list of firm personnel (Ref: par. .A5)
- c. Responses to inquiries about the areas to be addressed in the written representations
- d. The firm's prior
  - i. peer review report,
  - ii. letter of response (if applicable),
  - iii. letter of acceptance,
  - iv. findings for further consideration (FFCs) (if applicable), and
  - v. representation letter
- e. The firm's quality control documentation (Ref: par. .A6)

**.07** The firm should assist the reviewer in meeting the objectives of performing a system review. The peer review contact should meet with the review team at the beginning of the review to orient them to firm policies and procedures and introduce them to appropriate personnel. (Ref: par. .A7–.A8)

#### *Engagement Selection*

**.08** For each engagement selected for review, the reviewed firm should submit (masking client identity if it desires) the following: (Ref: par. .A9)

- a. The appropriate financial statements or information
- b. The accountant's or auditor's report, if applicable
- c. Engagement profile
- d. The documentation required by applicable professional standards for each engagement

#### *Scope Limitations*

**.09** The firm should notify the team captain and the AE, prior to the commencement of the review, if it intends to exclude an engagement or elements of the firm's system of quality control. This notification should indicate

- a.* its plans to exclude one or more engagements or aspects of functional areas from the peer review selection process,
- b.* the reasons for the exclusion, and
- c.* that it is requesting a waiver from the AE for the exclusion.

### **Testing Compliance With the Firm’s System of Quality Control**

**.10** The firm should promptly respond to reviewer questions during the review. (Ref: par. .A10–.A12)

### **Responding to Matters, Findings, Deficiencies, and Significant Deficiencies**

**.11** The firm should discuss preliminary peer review results, including matters, findings, deficiencies, and significant deficiencies, with the reviewer. Ordinarily, this discussion occurs during the closing meeting. If the firm disagrees with one or more of the matters, findings, or deficiencies, and the firm and reviewer can’t come to a resolution, the firm should contact the AE for assistance and follow the guidance in section 100 to resolve the disagreement. (Ref: par. .A13)

**.12** The firm should respond to

- a.* matters via the matter for further consideration (MFC) form,
- b.* findings via the FFC form, and
- c.* deficiencies or significant deficiencies via a letter of response.

**.13** Responses to matters, findings, deficiencies, or significant deficiencies should include an assessment of the systemic cause, which should provide enough detail for the reviewer to understand how the firm arrived at its conclusion.

**.14** The firm’s responses to findings, deficiencies, or significant deficiencies should (Ref: par. .A14–.A19)

- a.* include the firm’s actions taken or planned to remediate the findings or deficiencies in the firm’s system of quality control and nonconforming engagements, if applicable, including
  - i.* timing of the remediation and
  - ii.* additional procedures to ensure the finding or deficiency is not repeated in the future.
- b.* be feasible, genuine, and comprehensive.

- c. be addressed to the AE's peer review committee (committee).
- d. be dated as of the exit conference date.
- e. be on firm letterhead.

The reviewer should review documentation of any action taken by the firm and consider whether the action is appropriate.

**.15** The firm's draft responses should be provided to the team captain as soon as possible after the closing meeting to allow the team captain enough time to assess the firm's responses prior to the exit conference. (Ref: par. .A20–.A21)

**.16** The firm should provide to the team captain written representations on firm letterhead for the peer review year, dated as of the date of the peer review report, that state the following: (Ref: par. .A22–.A23)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting and auditing practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the team captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which the firm practices, for the year under review. If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe its remediation of the noncompliance.
- d. Management has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable.
- e. Management has fulfilled its responsibility to remediate nonconforming engagements as stated by the firm on the [*Matter for Further Consideration Form, Finding for Further Consideration Form, or Letter of Response*], if applicable.
- f. Management understands the intended uses and limitations of the quality control materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting and auditing practice.
- g. Management has responded fully and truthfully to of the team captain's inquiries.



- h.* Management has provided the team captain with all relevant information, which included
  - i.* all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review.
  - ii.* all must-select engagements, as applicable.
- i.* Management has disclosed to the team captain if the firm performed must-select engagements for the period covered by the peer review, and, if so, at least one of each type of must-select engagement that was performed was selected and reviewed by the peer reviewer.
- j.* Management acknowledges that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, or enforcement body.
- k.* Management has provided to the team captain communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
- l.* Management has disclosed that there are no known limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end, or management has included a summary of the limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

**.17** If, in addition to the representations required by paragraph .16, the team captain determines that it is necessary to obtain other representations based on the circumstances and nature of the peer review, the team captain should request such other written representations.

### **Subsequent Events**

**.18** If a firm performs a must-select engagement in an industry not subject to the current review after the year-end and before the due date of its system review, the reviewed firm should (Ref: par. .A24–.A25)

- a.* immediately notify the AE and
- b.* determine if the due date should be extended to include the must-select engagement.

## **Application and Other Explanatory Material**

### **Scope of This Section (Ref: par. .01–.02)**

**.A1** Firms eligible to have an engagement review may elect to have a system review.

**.A2** Joint ventures formed specifically to perform certain engagements are not required to have a peer review provided that

- a. each of the firms that sign the joint venture report is required to have system reviews and agree to list the joint venture on its client rosters during its peer reviews.
- b. the joint venture is not operating and structured as a separate firm. (Joint ventures do not include part-time work arrangements, when only one firm issues the report.) If the letterhead used for the joint venture does not identify the separate firms that joined together to perform the engagement, then the joint venture is operating as a separate firm.

### **Objective (Ref: par. .04)**

**.A3** The reviewed firm may benefit from knowing the reviewer’s objectives in conducting a system review, which are to do the following:

- a. Obtain reasonable assurance that the reviewed firm’s system of quality control for its accounting and auditing practice has been designed and complied with to provide the firm with reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in all material respects.
- b. Report on the reviewed firm’s system of quality control and communicate as required by the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board of the American Institute of Certified Public Accountants, in accordance with the reviewer’s conclusions.

### **Planning (Ref: par. .06–.07)**

**.A4** For more information regarding engagements that must be selected or that fall into the “must-cover” category, refer to section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, appendix C, “Additional Requirements for Must-Select and Must-Cover Engagements.”

**.A5** The personnel list assists reviewers in performing their risk assessment procedures. The reviewer may request that the list include

- a. name,
- b. position, and
- c. years of experience

- i. with the firm and
- ii. in total.

**.A6** Quality control documentation will likely include the firm's quality control document, evidence of the performance of the firm's monitoring procedures, and CPE documentation, among other documents. Upon reviewing such documentation, the reviewer may determine that the firm's current-year internal monitoring procedures could enable the reviewer to reduce the extent of the peer review procedures.

**.A7** To obtain an understanding of the firm's accounting and auditing practice and system of quality control, the reviewer will do the following:

- a. Inquire of appropriate management and other personnel
- b. Review the firm's internal policies and procedures
- c. Review the firm's quality control documentation
- d. Inquire of the firm regarding elements of the system of quality control residing outside of the firm (Ref: par. .A11)
- e. Complete the applicable quality control checklists

**.A8** Examples of elements that could reside outside of the firm include, but are not limited to, membership in associations, joint ventures, non-CPA-owned entities, alternative practice structures, arrangements with outside consultants, third-party quality control materials, or CPE.

*Engagement Selection (Ref: par. .08)*

**.A9** To obtain reasonable assurance that the firm is complying with its quality control policies and procedures and applicable professional standards, the reviewer will review a reasonable cross section of the firm's accounting and auditing engagements, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk.

### **Testing Compliance With the Firm's System of Quality Control (Ref: par. .10)**

**.A10** To test the firm's compliance with its system of quality control and applicable professional standards, the reviewer will do the following:

- a. Review and evaluate highest-risk areas on selected engagements, including accounting and auditing documentation, and reports.
- b. Interview firm personnel at various levels to assess their understanding of, and compliance with, the firm's system of quality control.
- c. Review evidence to determine whether the firm has complied with its policies and procedures for each element of its system of quality control, which may include evidence since the previous peer review. (Ref: par. .A27 of section 210)
- d. Review other evidence as appropriate. (Ref: par. .A28–.A29 of section 210)
- e. Complete the applicable quality control checklists.

**.A11** The reviewer's evaluation of each engagement submitted for review will include the following:

- a. Consideration of the financial statements or information and the related accountants' reports
- b. Review of accounting and audit documentation required by the applicable professional standards
- c. Consideration of the information related to the engagement obtained through the peer review including, but not limited to, engagement profile information, representations made by the firm, and other inquiries

**.A12** When evaluating an audit engagement, the reviewer's procedures should include determining whether the reviewed firm has appropriately

- a. identified the significant risk areas on each audit engagement selected for the peer review,
- b. performed the necessary audit procedures related to the identified significant risk areas, and
- c. documented the auditing procedures performed in these significant risk areas.

**Responding to Matters, Findings, Deficiencies, and Significant Deficiencies (Ref: par. .11 and .14–.15)**

**.A13** The closing meeting is designed to provide sufficient time for the firm to determine the appropriate responses to peer review results and for the reviewer to evaluate the firm's responses. The following are discussed during the closing meeting:

- a. Preliminary peer review results, including any matters, findings, deficiencies, or significant deficiencies, and the type of report expected to be issued if determinable at this point
- b. The firm's requirement to respond to the MFCs, FFCs, or deficiencies or significant deficiencies included in the peer review report
- c. The firm's required written representations
- d. Other suggestions and observations for the firm to consider

**.A14** The purpose of the firm's response on the FFC form or in the letter of response is for a firm to document the specific actions that will be taken to correct findings, deficiencies, or significant deficiencies identified by the reviewer and to enhance the firm's current system of quality control.

**.A15** If the firm's response is not deemed to be feasible, genuine, and comprehensive, the AE's technical reviewer or committee will request a revised response. If pervasive nonconformity has been identified by the reviewer, the firm's response may state that it has reviewed other

engagements with similar attributes to determine if similar remediation is warranted on other engagements that were not selected by the reviewer.

**.A16** Although it is ultimately the firm’s responsibility, firms are encouraged to work with the team captain to develop remedial actions and responses that both parties believe will be effective in correcting the matters, findings, and deficiencies or significant deficiencies identified during the peer review. Improvement is more likely to occur when the responses describe specific actions to be taken. Firms are discouraged from defaulting to a response of “we’ll fix it on the next engagement” unless the firm is able to articulate why that is the appropriate response. Team captains or AEs should not dictate specific remediation to nonconforming engagements because those are decisions for the firm and its client to make.

**.A17** The committee may require the firm to make and document appropriate considerations regarding nonconforming engagements as a condition of acceptance of the peer review. The firm response may affect monitoring actions the committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

**.A18** Examples of actions a firm may take in response to nonconforming engagements include, but are not limited to, the following:

- a.* Omitted procedures performed (including documentation)
- b.* Reissued report and financial statements
- c.* Notification to users to discontinue use of previously issued reports

**.A19** Illustrations of letters of response are presented in exhibit B, “Illustrative Examples of a Firm’s Letter of Response.”

**.A20** If the firm is unable to determine appropriate remediation of weaknesses in its system of quality control and nonconforming engagements, if applicable, prior to the exit conference, the firm’s response may indicate interim steps that have been taken and confirm its intent to remediate when an appropriate response is determined. In these situations, the RAB considering the review will ordinarily assign an implementation plan or corrective action for the firm to provide its final remediation.

**.A21** After the firm has responded to the MFCs, FFCs, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, the team captain should communicate the results to the firm at an exit conference. The following is discussed during the exit conference:

- a.* Final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm’s responses to MFCs, FFCs, and deficiencies or significant deficiencies in the report
- b.* The appropriateness of the firm’s response

- c. The firm's representation letter
- d. Potential implications of the RAB acceptance process and their impact to the acceptance and completion of the peer review, and the reviewed firm's enrollment in the program, including, but not limited to,
  - i. corrective actions for deficiencies or significant deficiencies and implementation plans for findings, if applicable;
  - ii. recommended report rating changes;
  - iii. oversight
- e. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable

**Written Representations (Ref: par. .16–.17)**

**.A22** The reviewed firm is not prohibited from making additional representations and may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the team captain.

**.A23** An illustrative example of a firm's written representation letter is provided in exhibit A, "Illustrative Representation Letter."

**Subsequent Events (Ref: par. .18)**

**.A24** Before requesting a due date extension, the firm would need to consider the effect of the extension on any state boards of accountancy requirements or other regulatory peer review requirements.

**.A25** If the circumstances described in paragraph .18 represent a long-term change in the nature of the firm's business, the firm may consult with its AE and consider requesting a change in peer review year-end.

## ***Exhibit A — Illustrative Representation Letter***

**.A26** The following illustrative letter includes written representations that are required by this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.

[Entity Letterhead]

[Date]

To [Name of Team Captain]:

We are providing this letter in connection with the peer review of the system of quality control for the accounting and auditing practice of [name of firm] [applicable to engagements not subject to PCAOB permanent inspection (if applicable)] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [no knowledge of][disclosed to you all known] situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the team captain with periods ending (or the report dates for financial forecasts or projections and agreed-upon procedures engagements) during the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable. We understand that failure to properly include engagements subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have completed the following must-select engagements and issued their respective reports. To the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Compliance audits under the Single Audit Act
3. Audits of employee benefit plans

4. Audits performed under FDICIA
5. Examinations of service organizations (SOC 1 and SOC 2 engagements)]

*[We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the [Matter for Further Consideration, Finding for Further Consideration, or Letter of Response (as applicable)]]*.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the team captain, if applicable. We have also provided the team captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, to the best of our knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,

*[Name of Reviewed Firm Representative(s)]*<sup>fn 1</sup>

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<sup>fn 1</sup> Firm representatives are members of management, as described in paragraph .11 in section 300, *General Principles and Responsibilities for Reviewed Firms*.



## ***Exhibit B — Illustrative Examples of a Firm’s Letter of Response***

.A27 This exhibit contains various illustrations of a firm’s letter of response to a peer review report rating of *pass with deficiencies* or *fail* (system reviews).

**Illustration 1 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies**

**Illustration 2 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation**

**Illustration 3 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail**

**Illustration 4 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail With a Scope Limitation**

**Illustration 1 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies**

*[Reviewed firm’s letterhead]*

*[Date of the report]*

*[Addressed to the peer review committee of the administering entity]*<sup>fn 1</sup>

Ladies and Gentlemen:

This letter represents our<sup>fn 2</sup> response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended *[peer review year-end date]*. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

- 1.<sup>fn 3</sup> The firm modified its quality control policies and procedures to include monitoring of firm personnel’s compliance with regulatory and organization membership requirements. The importance of meeting these CPE requirements was discussed in a recent training session held in connection with a recent firm-wide staff meeting. Additionally, the training session included sufficient Yellow Book CPE such that all firm personnel have met the regulatory requirements. The impact to the Yellow Book audits of failure to take sufficient CPE timely is currently being discussed with the Government Accountability Office (GAO) and the firm will remediate as necessary based on that discussion.
2. In addition, at that training session, the importance of proper use of the firm’s checklists appropriate to the industry of the engagement being performed was discussed. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm’s CPE plan for partners and managers now includes annual updates on industry-specific issues. The omitted procedures have been performed.

These remedial actions will also be emphasized in our monitoring procedures and internal inspection.

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

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<sup>fn 1</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the National Peer Review Committee.”

<sup>fn 2</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>fn 3</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

Sincerely,

[Name(s) of reviewed firm representative(s)]<sup>fn 4</sup>

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<sup>fn 4</sup> These are members of management as described in paragraph .27 of section 200, *General Principles and Responsibilities for Reviewers*.

**Illustration 2 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation**

[Reviewed firm’s letterhead]

[Date of the report]

[Addressed to the peer review committee of the administering entity]<sup>fn 1</sup>

Ladies and Gentlemen:

This letter represents our<sup>fn 2</sup> response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended [peer review year-end date].

- 1.<sup>fn 3</sup> Due to circumstances that we deemed appropriate, we notified the peer reviewer that he would be unable to select our only audit subject to *Government Auditing Standards* in the peer review. This was an initial engagement and an engagement performed under *Government Auditing Standards*, so there were no previous audits for the reviewer to select. We have considered the consequences of noncompliance related to this matter. We understand that, until our firm’s most recently completed peer review includes selection of an engagement performed under *Government Auditing Standards*, our audit reports for such engagements will need to include an exception regarding our lack of compliance with peer review requirements.

Sincerely,

[Name(s) of reviewed firm representative(s)]<sup>fn 4</sup>

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<sup>fn 1</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the National Peer Review Committee.”

<sup>fn 2</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>fn 3</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

<sup>fn 4</sup> These are members of management as described in paragraph .27 of section 200.

**Illustration 3 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail**

[Reviewed firm’s letterhead]

[*Date of the report*]

[*Addressed to the peer review committee of the administering entity*]<sup>fn 1</sup>

Ladies and Gentlemen:

This letter represents our<sup>fn 2</sup> response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended [*peer review year-end date*]. The firm is committed to providing clear, consistent, and frequent actions and messages from all levels of the firm’s management to emphasize the firm’s commitment to quality. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

- 1.<sup>fn 3</sup> The firm modified its quality control policies and procedures to require the following:
  - a. Use of practice aids to document procedures performed to assess competency for undertaking new engagements. The practice aid is designed to ensure that the firm (1) is competent to perform the engagement and has the capabilities, including time and resources, to do so; (2) can comply with legal and relevant ethical requirements; and (3) has considered the integrity of the client.
  - b. Inclusion of a CPE plan for obtaining relevant training to prepare for engagements in new industries or service areas in the client acceptance file.

The firm has recalled the audit report for the employee benefit plan audit and has hired a third party to perform a pre-issuance review prior to reissuing our report.

2. We have joined the AICPA Governmental Audit Quality Center and Employee Benefit Plan Audit Quality Center. The firm modified its quality control policies and procedures to require personnel that perform engagements in these

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<sup>fn 1</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>fn 2</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>fn 3</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

specialized areas to attend at least eight hours of CPE annually in the specialized area. We are committed to promptly completing our evaluation of the audit engagements, including whether audited financial statements should be recalled and reissued to include the omitted disclosures. The omitted procedures will be performed and documentation will be added in a memo to the engagement files of the audit performed under *Government Auditing Standards* and the audits in other industries identified as not in conformity with professional standards.

3. The firm's system of quality control was modified to include monitoring procedures to provide it with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with all functional areas of the system and will perform annual inspections on a sample of engagements. We intend to hire a Quality Control Director who will be responsible for developing and implementing our monitoring and inspection procedures.

The results of our peer review will be discussed in a firm-wide meeting to be held on *[date of meeting]*, and an emphasis on quality will be reinforced with all engagement partners and their teams.

Sincerely,

*[Name(s) of reviewed firm representative(s)]*<sup>fn 4</sup>

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<sup>fn 4</sup> These are members of management as described in paragraph .27 of section 200.

**Illustration 4 — A Firm’s Letter of Response to a Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail With a Scope Limitation**

*[Reviewed firm’s letterhead]*

*[Date of the report]*

*[Addressed to the peer review committee of the administering entity]*<sup>fn 1</sup>

Ladies and Gentlemen:

This letter represents our<sup>fn 2</sup> response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended *[peer review year-end date]*.

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

- 1.<sup>fn 3</sup> The firm’s monitoring procedures were modified to provide it with reasonable assurance that the firm’s policies and procedures are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with relevant ethical considerations and perform annual testing of a sample of personnel independence confirmations. We have contacted our attorney, clients, and applicable regulatory bodies to discuss the impact of the independence violations and will remediate the engagements as required by professional standards.
2. The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar. We have also joined the AICPA Employee Benefit Plan Audit Quality Center. The omitted procedures will be performed and documentation will be added in a memo to the engagement file. We will engage one of the accounting firms to review the engagement working papers prior to finalizing the memo and to perform engagement quality control reviews of future employee benefit plan audits.

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<sup>fn 1</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the National Peer Review Committee.”

<sup>fn 2</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>fn 3</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use. At our next staff meeting on *[date of meeting]*, we will emphasize the importance of proper use of the firm's practice aids. We will also discuss the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on the firm's expectations for performing and documenting audit planning considerations.

The firm is committed to strengthening its monitoring policies and procedures. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as previously mentioned) has been sought, and these individuals will be available for consultation and guidance.

Sincerely,

*[Name(s) of reviewed firm representative(s)]*<sup>fn 4</sup>

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<sup>fn 4</sup> These are members of management as described in paragraph .27 of section 200.



## **PR-C Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains requirements and application material for firms engaged to have an engagement review. The requirements and guidance in this section supplement the requirements and application guidance in section 100, *Concepts Common to All Peer Reviews*, and section 300, *General Principles and Responsibilities for Reviewed Firms*.

**.02** Firms that perform only engagements under the Statements on Standards for Accounting and Review Services (SSARs) or engagements under the Statements on Standards for Attestation Engagements (SSAEs) other than examinations are eligible to have engagement reviews. (Ref: par. .A1)

#### **Effective Date**

**.03** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objective**

**.04** The objective of the reviewed firm is to enhance its effectiveness and contribute to the quality of our profession by undergoing an engagement review performed in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board (the board) of the American Institute of Certified Public Accountants. (Ref: par. .A2)

### **Definitions**

**.05** A list of terms applicable to this section are defined in paragraph .11 of section 100.

### **Requirements**

#### **Planning**

**.06** The firm should make the following information available to the review captain:

- a.* The number of engagements performed by level of service and industry for each engagement partner

- b. Responses to inquiries about the areas to be addressed in the written representations
- c. The firm's prior
  - i. peer review report,
  - ii. letter of response (if applicable),
  - iii. letter of acceptance,
  - iv. findings for further consideration (FFCs) (if applicable), and
  - v. representation letter

### **Engagement Selection**

**.07** The firm should submit the engagements that meet the criteria of the review captain's selections. (Ref: par. .08 and .A3–.A7)

**.08** For each engagement selected for review, the reviewed firm should submit the following (masking client identity if it desires):

- a. The appropriate financial statements or information
- b. The accountant's report, if applicable
- c. The engagement profile
- d. The firm's documentation required by applicable professional standards for each engagement

### *Scope Limitations*

**.09** The firm should notify the review captain and the administering entity (AE), prior to the commencement of the review, if it intends to exclude an engagement. This notification should indicate

- a. its plans to exclude one or more engagements from the peer review selection process,
- b. the reasons for the exclusion, and
- c. that it is requesting a waiver for the exclusion.

### **Evaluation of Engagements**

**.10** The firm should promptly respond to review captain questions during the review. (Ref: par. .A8)

## **Responding to Matters, Findings, and Deficiencies**

**.11** The firm should discuss matters, findings, and deficiencies with the review captain. Ordinarily, this discussion occurs during the closing meeting. If the firm disagrees with one or more of the findings or deficiencies, and the firm and reviewer can't come to a resolution, the firm should contact the AE for assistance and follow the guidance in section 100 to resolve the disagreement. (Ref: par. .A9)

**.12** The firm should identify the appropriate remediation of findings and deficiencies. (Ref: par. .A10)

**.13** The firm should respond to

- a.* matters via the matter for further consideration (MFC) form,
- b.* findings via the FFC form, and
- c.* deficiencies via a letter of response.

**.14** The firm's responses on the FFCs and letter of response should (Ref: par. .A11–.A14)

- a.* include the firm's actions taken or planned to remediate the findings or deficiencies, including
  - i.* timing of the remediation and
  - ii.* additional procedures to ensure the finding or deficiency is not repeated in the future.
- b.* be feasible, genuine, and comprehensive.
- c.* be addressed to the AE's peer review committee.
- d.* be dated as of the exit conference.
- e.* be on firm letterhead.

The review captain should review documentation of any action taken by the firm and consider whether the action is appropriate.

**.15** The firm's draft responses should be provided to the review captain as soon as possible after the closing meeting to allow the review captain enough time to assess the firm's response prior to the exit conference. (Ref: par. .A15)

## **Written Representations**

**.16** The firm should provide to the review captain written representations on firm letterhead for the peer review year, dated as of the date of the peer review report, that state the following: (Ref: par. .A16–.A18)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the review captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which the firm practices for the year under review. If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe its remediation of the noncompliance.
- d. Management has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable.
- e. Management has fulfilled its responsibility to remediate nonconforming engagements as stated by the firm on the relevant form, if applicable.
- f. Management understands the intended uses and limitations of the quality control materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting and auditing practice.
- g. Management has responded fully and truthfully to the review captain's inquiries.
- h. Management has provided the review captain with all relevant information including all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review.
- i. Management has disclosed to the review captain that the firm did not perform any engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the SSAEs, or engagements under the Public Company Accounting Oversight Board (PCAOB) standards that are not subject to PCAOB permanent inspection.
- j. Management acknowledges that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, or enforcement body.

- k. Management has provided to the review captain communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
- l. Management has disclosed that there are no known limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end, or management has included a summary of the limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

.17 If, in addition to the representations required by paragraph .16, the review captain determines that it is necessary to obtain other representations based on the circumstances and nature of the peer review, the review captain should request such other written representations.

### **Subsequent Events**

.18 If, after the year-end of its engagement review, a firm performs an engagement requiring a system review, the reviewed firm should

- a. immediately notify the AE and
- b. undergo a system review.

The system review is due the earlier of 18 months from the year-end of the engagement (or, for financial forecasts and projections, 18 months from the date of the report) requiring a system review or by the firm's next scheduled due date.

.19 If the firm fails to immediately notify the AE of the performance of an engagement described in paragraph .18, the firm should participate in a system review with a peer review year-end that covers that engagement.

## **Application and Other Explanatory Material**

### **Scope of This Section (Ref: par. .01–.02)**

.A1 Firms eligible to have an engagement review may elect to have a system review. See section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*, for the firm requirements of a system review.

### **Objective (Ref: par. .04)**

**.A2** The reviewed firm may benefit from knowing the review captain's objectives when performing an engagement review, which are to

- a.* evaluate whether the engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects and
- b.* report on the evaluation of selected engagements.

**Engagement Selection (Ref: par. .07)**

**.A3** The review captain will make selections based on the following criteria:

- a.* One engagement from each of the following levels of service performed by the firm:
  - i.* Review of financial statements (performed under SSARs)
  - ii.* Compilation of financial statements with disclosures (performed under SSARs)
  - iii.* Compilation of financial statements that omits substantially all disclosures (performed under SSARs)
  - iv.* Engagements performed under the SSAEs other than examinations
- b.* One engagement from each engagement partner responsible for the issuance of reports listed in item (*a*)
- c.* At least two engagements, unless only one is performed

**.A4** The review captain will select a preparation engagement only in one of the following instances:

- a.* It is the only level of service performed by an engagement partner.
- b.* It is the only engagement performed with disclosures.
- c.* It is the only engagement performed without disclosures.
- d.* To meet the minimum requirement of two engagements selected for review.

**.A5** The objective of the engagement selection requirements is to select one engagement for each engagement partner and one engagement from each level of service listed in paragraph .A3*a* for the firm. Review captains will not select more engagements than necessary to meet this objective.

**.A6** Engagement selection may also include consideration of industries.

**.A7** As an example, a firm may have indicated that engagement partner A issues review reports on 4 construction contractors, 2 retailers, and 10 manufacturers, but engagement partner B issues compilation reports on 30 medical practices and review reports on 5 restaurants. The firm may be asked to submit one of engagement partner A's review reports on a construction contractor and one of engagement partner B's compilation reports on a medical practice. The firm will choose the engagements based on those selections.

### **Evaluation of Engagements (Ref: par. .10)**

**.A8** The review captain's evaluation of each engagement submitted for review will include the following:

- a. Consideration of the financial statements or information and the related accountant's report on the engagements performed under the SSARSs and SSAEs
- b. Review of all other documentation required by applicable professional standards on the engagements
- c. Consideration of the information related to the engagement obtained through the peer review including, but not limited to, engagement profile information and other inquiries

### **Responding to Matters, Findings, and Deficiencies (Ref: par. .11–.13)**

**.A9** The closing meeting is designed to provide sufficient time for the firm to determine the appropriate responses to peer review results and for the reviewer to evaluate the firm's responses. The following are discussed during the closing meeting:

- a. Preliminary peer review results, including any matters, findings, or deficiencies, and the type of report expected to be issued, if determinable at this point
- b. The firm's requirement to respond to any MFCs, FFCs, or deficiencies included in the peer review report
- c. The firm's required written representations
- d. Other suggestions and observations for the firm to consider

**.A10** Although it is ultimately the firm's responsibility, the review captain and firm may collaborate to determine the remediation. Review captains or AEs should not require firms to perform omitted procedures, reissue accounting reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make.

**.A11** The purpose of the firm's response on the FFC or in the letter of response is for a firm to document the specific actions that will be taken to correct findings and deficiencies noted by the review captain.

**.A12** The AE's peer review committee (the committee) or report acceptance body (RAB) may require the firm to make and document appropriate considerations regarding nonconforming engagements as a condition of acceptance of the peer review. The firm's response may affect

other monitoring actions the committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

**.A13** Examples of actions a firm may take in response to nonconforming engagements include, but are not limited to, the following:

- a.* Omitted procedures performed (including documentation)
- b.* Reissued report and financial statements
- c.* Notification to users to discontinue use of previously issued reports

**.A14** Illustrative letters of response are presented in exhibit B, “Illustrative Examples of a Firm’s Letter of Response.”

**.A15** After the firm has responded to the MFCs, FFCs, and deficiencies in the report and the review captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, the review captain should communicate the results to the firm at an exit conference. The following are discussed during the exit conference:

- a.* Final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm’s responses to MFCs, FFCs, and deficiencies in the report
- b.* The appropriateness of the firm’s response
- c.* The firm’s representation letter
- d.* Potential implications of the RAB acceptance process and their impact on the acceptance and completion of the peer review and on the reviewed firm’s enrollment in the program, including
  - i.* corrective actions for deficiencies and implementation plans for findings, if applicable;
  - ii.* recommended report rating changes; and
  - iii.* oversight
- e.* Peer review noncooperation implications of consecutive non-pass report ratings, if applicable

## **Written Representations**

**.A16** The reviewed firm is not prohibited from making additional representations and may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the review captain. For example, the list of engagements in paragraph .16*i* is a minimum required representation, and therefore, these engagement types should not be removed if the firm does not perform any such engagements.



**.A17** An illustrative example of a firm’s written representation letter is provided in exhibit A, “Illustrative Representation Letter.”

**.A18** On committee-appointed review team reviews, the representation letter may be addressed “To the Review Captain.”

## ***Exhibit A — Illustrative Representation Letter***

**.A19** The following illustrative letter includes written representations that are required by this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.

[Entity Letterhead]

[Date of the Report]

To [Name of Review Captain]:

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [no knowledge of][disclosed to you all known] situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements through the issuance dates of the reviewed engagements in each state in which it practices for the year under review.

We have provided to the review captain a list of all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under Public Company Accounting Oversight Board (PCAOB) standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the Letter of Response (if applicable).]

We have discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or

enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm that, to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

Sincerely,

*[Name of Reviewed Firm Representative(s)]*<sup>fn 1</sup>

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<sup>fn 1</sup> Firm representatives are members of management as described in paragraph .11 of section 300, *General Principles and Responsibilities for Reviewed Firms*.

## ***Exhibit B — Illustrative Example of a Firm’s Letter of Response***

**A20** This exhibit contains an illustration of a firm’s letter of response to a peer review report rating of *pass with deficiencies* or *fail* (engagement reviews).

### **Illustration — A Firm’s Letter of Response to a Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass with Deficiencies or Fail**

*[Reviewed firm’s letterhead]*

*[Date of the report]*

*[Addressed to the peer review committee of the administering entity]*<sup>fn 1</sup>

Ladies and Gentlemen:

This letter represents our<sup>fn 2</sup> response to the report on the engagement review of our firm’s accounting practice for engagements submitted for review with periods ending during the year ended *[peer review year-end date]*.

- 1.<sup>fn 3</sup> We have recalled and reissued the review report. The entire staff has participated in continuing professional education related to reporting and disclosures, with a particular focus on areas specific to the industries that we are engaged in. We will be performing a pre-issuance review by a partner not associated with the engagement to make sure that the accountant’s report is appropriately modified when the financial statements depart from applicable professional standards.
2. We subsequently obtained a management representation letter and documented the matters covered in our inquiry and analytical procedures. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant’s inquiry and analytical procedures, is included in the working papers.

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<sup>fn 1</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the National Peer Review Committee.”

<sup>fn 2</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>fn 3</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

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

Sincerely,

[*Name(s) of reviewed firm representative(s)*]<sup>fn 4</sup>

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<sup>fn 4</sup> These are members of management as described in paragraph .27 of section 200, *General Principles and Responsibilities for Reviewers*.

## **PR-C Section 400, *General Principles and Administration Responsibilities***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains performance requirements and application material for administration of the AICPA Peer Review Program (the program). The requirements and guidance in this section supplement the requirements and guidance in the following PR-C sections:

- a. Section 100, *Concepts Common to All Peer Reviews*
- b. Section 410, *The Report Acceptance Process*
- c. Section 420, *Corrective Actions and Implementation Plans*
- d. Section 430, *Reviewer Monitoring and Performance*

**.02** In addition to the sections described by paragraph .01, individuals involved in the administration of the program should be familiar with reviewer and firm requirements in the following PR-C sections: (Ref: par. .A1)

- a. Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*
- b. Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*
- c. Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*
- d. Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*

#### **Effective Date**

**.03** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

#### **Objective**

**.04** The objective of the administering entity (AE) is to carry out the program in accordance with the AICPA Standards for Performing and Reporting on Peer Review (the standards). The peer review committee (committee) assists the AE in its objectives by overseeing the administration, acceptance, and completion of peer reviews.

#### **Definitions**

**.05** A list of terms applicable to this section are defined in paragraph .11 of section 100.

## Requirements

### Obligations of an Administering Entity

**.06** In electing to administer the program, an AE agrees to do the following:

- a. Comply with the standards.
- b. Cooperate with the board in all matters related to the administration of the program. (Ref: par. .A2)
- c. Engage an experienced CPA on staff to lead and manage the program. (Ref: par. .A3)
- d. Appoint a peer review committee of at least six members to oversee the administration of the program. (Ref: par. .A4–.A5)
- e. Comply with AICPA system security guidelines.
- f. Establish a backup plan for key individuals involved in the administration of the program.
- g. Establish familiarity threat policies and procedures that identify, evaluate the significance of, and apply safeguards to mitigate those threats. (Ref: par. .A6)
- h. Annually submit a comprehensive and written oversight program that meets minimum requirements established by the board and ensures the program is performed in accordance with the standards. (Ref: par. .A7)
- i. Establish policies and procedures to address disagreements that arise between parties to a peer review. (See appendix B, “Disagreements.”)
- j. Establish procedures to ensure consistent application of the standards.
- k. Monitor reviewer performance. (See section 430.)
- l. Perform procedures to verify that reviewer resumes accurately reflect the reviewer qualifications.
- m. Monitor firms enrolled in the program within its jurisdiction.
- n. Evaluate the qualifications and competencies of technical reviewers at least annually.
- o. Ensure reviews are presented for evaluation to a report acceptance body (RAB) or accepted by the technical reviewer in a timely manner as follows: (Ref: par. .A8)
  - i. Reviews required to be presented to a RAB are presented within 120 days of the receipt of the working papers from the captain.
  - ii. Engagement reviews meeting the criteria to be accepted by a technical reviewer are accepted by the technical reviewer or presented to a RAB within 60 days of the receipt of the working papers from the captain.
  - iii. Meeting materials are provided to RAB members at least seven days in advance of the date of the RAB meeting.

### Document Retention

**.07** The AE should retain peer review documentation at least 120 days, but no more than 150 days, after the peer review completion date, except for the following, as applicable: (Ref: par. .A9–.A10)

- a. Peer review report
- b. Letter of response
- c. Firm representation letter
- d. FFCs
- e. Letter notifying the firm that its peer review has been accepted
- f. Letters requesting the firm's completion of implementation plans
- g. Letters requesting the firm's completion of additional corrective actions
- h. Letters notifying the firm that implementation plans have been completed
- i. Supporting documents evidencing completion of corrective actions and implementation plans, including documentation regarding the decision to waive, replace, or extend the due date
- j. Committee-appointed review team (CART) engagement letter
- k. Letters relating to peer review document recall considerations (See appendix C, "Considerations for the Recall of Peer Review Documents.")

If a firm is enrolled in the program but has not undergone a peer review in the last 3 years and 6 months since the year-end date of its last peer review, all other peer review documents should be retained at least 42 months, but no more than 43 months, after the peer review completion date.

### **Publicizing Peer Review Information**

**.08** Except as authorized by the reviewed firm, individuals involved in the administration of the program should disclose only the following information regarding a reviewed firm: (Ref: par. .A1 and .A11–.A13)

- a. The firm's name and address
- b. Whether the firm is enrolled in the program
- c. The date of acceptance and the period covered by the firm's most recently accepted peer review
- d. The most recent date the firm's enrollment in the program has been dropped or terminated, if applicable

**.09** Individuals involved in the administration of the program should not provide subjective information about a firm's peer review, even with firm authorization. (Ref: par. .A14)

### **Ethical Requirements Relating to a Peer Review**

**.10** Individuals involved in the administration of the program should do the following:

- a. Maintain objectivity in discharging their responsibilities.
- b. Be free of bias, conflicts of interest, or undue influence of others that overrides professional judgment.
- c. Annually sign a confidentiality and conflict-of-interest agreement. (Ref: par. .A15)
- d. Not commence nor plan to commence any enforcement-related work, if applicable, as an employee, consultant, volunteer (or other similar arrangement) of the AICPA or state



CPA society ethics committee, the AICPA Joint Trial Board, or a state board of accountancy (or other regulatory agencies, governmental bodies, or similar groups or subgroups). (Ref: par. .A16)

**.11** Individuals associated with the AE that lack independence or have a conflict of interest with a reviewing firm, reviewer, or reviewed firm should recuse themselves from any discussion regarding the reviewed firm's peer review. Circumstances that would cause an individual to experience a conflict of interest include, but are not limited to, the following:

- a. The individual's firm performed the most recent or immediately preceding peer review of the affected firm.
- b. The individual served on the review team that performed the most recent or immediately preceding peer review of the affected firm.
- c. The individual served on a disagreement panel involving the firm's current review.
- d. The individual believes that the individual could not be impartial or objective.
- e. The individual's independence is impaired as a result of situations such as those described in paragraph .16 of section 200, *General Principles and Responsibilities for Reviewers*.

**.12** Individuals associated with the AE who perform oversight on a peer review may participate in discussions related to the firm subject to oversight but should not vote on any motions related to the firm or firm's review.

**.13** Individuals associated with the AE who are reviewers are also required to comply with the reviewer qualification requirements in section 200.

**.14** Individuals associated with the AE should notify the relevant AE of any allegations against or investigations into them. Notification should occur prior to participating in the peer review process (such as performing technical reviews or participating in any committee or RAB meetings). The AE should monitor and consider the role that the individuals fill in the peer review process when determining the proper actions to take. (Ref: par. .A17)

## **CPA on Staff**

### *Qualifications*

**.15** The CPA on staff should

- a. be licensed to practice as a CPA.
- b. be knowledgeable about the standards, administrative requirements, and processes.
- c. possess relevant audit experience and current knowledge of professional standards applicable to the reviews being administered.
- d. understand the significance of technical issues and the impact on reviews.
- e. obtain at least 48 hours of CPE every 3 years in subjects relating to accounting, auditing, and quality control with a minimum of 8 hours in any 1 year.
- f. complete CPA-on-staff training that meets the requirements established by the board.

- g. be proficient with technology to effectively manage the program.
- h. agree to confidentiality and conflict-of-interest requirements of the program.

**.16** The CPA on staff should not

- a. be a member of the committee or a RAB.
- b. perform peer reviews within the AE's jurisdiction.
- c. be a full-time technical reviewer for the AE at which the CPA is employed. (Ref: par. .A18)

**Peer Review Committee**

*Composition and Qualifications*

**.17** A majority of the committee members and the chairperson charged with the overall responsibility for administering the program should possess the qualifications required of a team captain in a system review, as addressed in paragraphs .05–.15 of section 200 and paragraph .32 of section 210. (Ref: par. .A19 and .A20)

**.18** Committee members should be members of the AICPA in good standing.

**.19** A committee member does not meet the required qualifications of a committee member if the member's ability to practice public accounting or perform peer reviews has been restricted by a regulatory, monitoring, or enforcement body beginning on the date the member is notified of the restriction and ending on the date that the restriction has been removed. (Ref: par. .A21)

*Responsibilities*

**.20** The committee should do the following: (Ref: par. .A4 and .A22)

- a. Carry out its activities in accordance with administrative procedures and guidance issued by the board.
- b. Oversee the administration, acceptance, and completion of peer reviews it has agreed to administer.
- c. Evaluate the adequacy of the policies and procedures required to be established by the AE per items (f)–(i) of paragraph .06.
- d. Monitor the performance of reviewers within its jurisdiction and, when appropriate, prescribe effective corrective actions or recommend to the board that a reviewer be prohibited from performing peer reviews in the future.
- e. Monitor firms that are not cooperating or not complying with the requirements of the program. (See appendix A, "Failure to Cooperate or Comply With the Requirements of the Program Referral Responsibilities.")

**Report Acceptance Body**

*Qualifications*

**.21** A RAB member should

- a. be a member of the AICPA in good standing, licensed to practice as a CPA.
- b. be presently involved in public practice as a partner, manager, or person with equivalent responsibilities in the accounting or auditing practice or carrying out a quality control function in the member's firm. (Ref: par. .A23)
- c. have spent the last five years in the practice of public accounting in the accounting or auditing function.
- d. be employed by or be an owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review. The report should have been accepted timely. (Ref: par. .A24)
- e. complete RAB member training that meets the requirements established by the board.
- f. agree to confidentiality and conflict-of-interest requirements of the program.

**.22** A RAB member does not meet the required qualifications if the member's ability to practice public accounting or perform peer reviews has been restricted by a regulatory, monitoring, or enforcement body. The period that the member is not qualified begins on the date the member is notified of the restriction and ends on the date that the restriction has been removed. (Ref: par. .A25)

#### *Report Acceptance Body Composition*

**.23** A minimum of three RAB members who are independent and free from any conflicts of interest should evaluate each peer review that requires RAB consideration. To accept any motions related to a peer review, a majority of the RAB members, but no fewer than three, should agree to carry the motion.

**.24** For the acceptance of system reviews (including corrective actions or implementation plans related to a system review),

- a. the chairperson of the RAB should possess the qualifications required of a system review team captain.
- b. a majority of the RAB members should possess the qualifications required of a system review team captain.
- c. at least one RAB member should have current experience in the types of must-select engagements included in the review. (Ref: par. .A26–.A27)

**.25** If a RAB meeting includes a third party to meet the requirement for must-select experience discussed in paragraph .24, that individual should meet the following qualifications:

- a. Be a member of the AICPA in good standing, licensed to practice as a CPA, and employed by or an owner of a firm enrolled in the program.
- b. Be presently involved in public practice in the types of must-select engagements as a partner, manager, or person with equivalent supervisory responsibilities or carrying out a quality control function in the individual's firm.

- c. Be employed by or an owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent system review. The report should have been accepted timely.
- d. Agree to confidentiality and conflict-of-interest requirements of the program.

*Peer Review Evaluation*

**.26** The RAB should evaluate each peer review presented for acceptance to determine whether the review was performed and reported on in accordance with the standards. After the evaluation of the peer review documents, the RAB should vote on acceptance, deferral, or delayed acceptance of the review. Specific criteria for evaluating peer reviews are discussed in paragraphs .11–.15 of section 410.

**.27** The RAB should require a reviewed firm to perform corrective actions for *pass with deficiencies* and *fail* reports. Determining when and what type of corrective actions to require is further discussed in paragraph .07 of section 420. (Ref: par. .A28–.A29)

**.28** The RAB should consider an implementation plan only for

- a. repeat findings,
- b. findings that identify at least one must-select nonconforming engagement in a system review, or
- c. a finding related to the reviewed firm’s licensure.

(See paragraphs .07 and .08 of section 420.)

**.29** The RAB should establish a due date for required corrective actions and implementation plans. The due date should be as soon as reasonably possible considering all known information, including, but not limited to, the following:

- a. The anticipated completion date of subsequent engagements
- b. The timing of CPE program presentations or availability
- c. The timing of the reviewed firm’s monitoring procedures

*Evaluating the Results of Corrective Actions and Implementation Plans*

**.30** The RAB should evaluate the results of corrective actions and implementation plans to determine if they have been completed as required and whether the reviewed firm should be required to perform additional actions. (See paragraphs .09–.10 of section 420.)

**.31** When considering replacing or waiving corrective actions or implementation plans, the RAB should do the following:

- a. Review the facts and circumstances surrounding the deficiencies or findings.
- b. Consider the reasons for the original action.
- c. Consider replacing an action prior to waiving an action, if applicable. (See paragraph .12 of section 420.)

**.32** If the reviewed firm requests a replacement or waiver of an action because it will no longer perform engagements in the industry or level of service related to the action, the RAB should replace or waive the action and require the firm to provide a written representation that

- a. states the firm is no longer performing or has plans to perform engagements in that industry or level of service.
- b. includes a listing of such engagements that were issued since the last peer review year-end.
- c. is signed by the appropriate member of management.
- d. is included in the letter of response if the firm represents it will no longer perform certain types of engagements or engagements in a specific industry prior to the review being submitted for acceptance.

**.33** If the RAB waived corrective actions because a reviewed firm represented that it would no longer perform the types of engagements that were the source of deficiencies and the firm subsequently notifies the AE that the firm has accepted such an engagement, the RAB should evaluate whether the firm should perform any actions related to the recently accepted engagement.

*Firm Cooperating and Complying With the Requirements of the Program*

**.34** The RAB should evaluate whether a reviewed firm is not cooperating or not complying with the requirements of the program due to reasons described in paragraph .16 of section 300, *General Principles and Responsibilities for Reviewed Firms*. (See appendix A.)

**.35** For a reviewed firm that receives three consecutive non-pass (*pass with deficiencies* or *fail*) peer review reports, the RAB should assess whether the firm should be referred for failing to comply with the requirements of the program when the RAB evaluates the firm's most recent review for acceptance. For a reviewed firm that receives consecutive non-pass peer review reports (two total), the RAB should assess whether the firm should be referred for failing to comply with the requirements of the program after the firm has submitted the results of assigned corrective actions in its current review. (Ref: par. .A30–.A33)

**.36** After a firm receives consecutive non-pass reports, the RAB or the committee should evaluate whether to refer the firm for potential termination. The evaluation of the firm's attempted improvement should include reviewing the previous peer review documents, including the reports, letters of response, and results from related corrective actions, and evaluating the following: (Ref: par. .A32–.A33)

- a. Whether the prescribed corrective actions were appropriate to address the cause of the deficiencies and gave the firm an opportunity to demonstrate the effectiveness of implemented changes
- b. Whether the firm was given an appropriate amount of time to improve

- c. Whether the firm implemented actions outside of required corrective actions to resolve deficiencies
- d. Whether actions taken by the firm appear genuine
- e. Whether there was improvement relative to the deficiencies identified
- f. Whether deficiencies were repetitive or substantially the same on the current review
- g. Whether deficiencies in the prior review were replaced with different deficiencies
- h. Whether deficiencies in the current year were of the same nature and severity as compared to the prior review deficiencies
- i. Other facts and circumstances as deemed necessary

**.37** After evaluation, the firm should be referred to the committee or board if any of the following apply:

- a. It is evident the firm did not implement the actions in its letters of response or complete corrective actions required to date.
- b. Deficiencies in previous peer reviews are repeated in the current peer review.
- c. The firm has not made attempts to appropriately design or comply with its system of quality control.

(See appendix A.)

**.38** The AE should maintain documentation of the RAB's and committee's evaluations of potential referrals to the board for termination for receiving consecutive non-pass reports.

**.39** Referral of a firm to the board should include all supporting documentation. (Ref: par. .A34–.A35)

#### *Considerations for the Recall of Peer Review Documents*

**.40** If, subsequent to the date of peer review acceptance, information becomes known that existed as of the date of the peer review report or acceptance that might have affected the performance or acceptance of the peer review, the RAB should evaluate the facts and circumstances and determine whether the acceptance letter should be recalled. In such cases, only the reviewed firm's most recently accepted peer review should be recalled. (Ref: par. .A36)

**.41** Recall should not be considered as a result of (Ref: par. .A37)

- a. fee disputes,
- b. disagreements that occur after acceptance by the RAB,
- c. situations outside of the scope of peer review,
- d. situations not addressed in the standards, or
- e. other situations that did not have a direct impact on the underlying peer review period, procedures performed, or peer review documents.

**.42** When peer review documents are being considered for recall,

- a. AICPA staff should be notified and consulted early in the process.

- b. all parties involved should cooperate with efforts to determine the impact any additional information may have on a review.
- c. all parties should continue to adhere to the confidentiality guidelines in paragraphs .19–.20 of section 100.
- d. peer review documentation should be maintained after notification of potential recall until the matter is resolved.
- e. recall considerations should be documented and retained until the firm’s subsequent review has been completed.

#### *Reviewer Performance*

**.43** During the review acceptance process, the RAB should evaluate the captain’s and review team’s performance. (See paragraphs .01–.17 of section 430.)

#### *Other RAB Responsibilities*

**.44** The RAB should periodically (at least annually) review a list of engagement reviews accepted by the technical reviewer.

### **Technical Reviewer**

#### *Qualifications*

**.45** A technical reviewer should (Ref: par. .A38)

- a. be a member of the AICPA in good standing, licensed to practice as a CPA.
- b. complete initial and ongoing peer review captain training that meets the requirements established by the board within 12 months preceding the commencement of the technical review. (Ref: par. .A38)
- c. have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. (Ref: par. .A39)
- d. obtain at least 48 hours of AICPA-required CPE every 3 years in subjects relating to accounting, auditing, and quality control, with a minimum of 8 hours in any 1 year.
- e. obtain at least 8 hours of CPE every 2 years in subjects related to single audits, if performing the technical review of a peer review that includes single audit engagements. The required CPE hours should include completion of technical reviewer training for single audits, which should be completed prior to performing the technical reviewer’s first technical review of documents for a single audit engagement. (Ref: par. .A40)
- f. annually participate in a peer review that is equivalent to the highest level of technical review performed. Participation includes the following:
  - 1. Reviewing and discussing the planning and scope of the peer review with the captain
  - 2. Reviewing the engagement checklists completed by the review team

3. Attending meetings or participating in conference calls between the reviewer and reviewed firm to discuss issues encountered during the peer review
4. Attending the closing meeting and the exit conference

**.46** Technical reviewers who are not also peer reviewers should notify the relevant AE of any limitations or restrictions on their or their firm's ability to practice. Notification should happen prior to performing a technical review. (Ref: par. .A41)

#### *Evaluating Peer Review Documentation*

**.47** Technical reviews are required to be performed on all peer reviews. The technical reviewer should review peer review documents, evaluate whether the peer review documentation provides satisfactory evidence of compliance with the standards and supports the conclusions reached, and complete the technical reviewer's checklist. (See paragraphs .05–.10 of section 410.)

**.48** For reviews that require RAB evaluation, the technical reviewer should provide the RAB with necessary information to properly evaluate the review. The required technical review working papers should be submitted to the AE in a timely manner to assist the AE in ensuring reviews are presented to a RAB within 120 days of receipt of the working papers from the captain and meeting materials are provided to RAB members at least 7 days in advance of the date of the RAB meeting. (See paragraphs .07 and .10 of section 410.)

**.49** When engagement reviews meet the criteria to be accepted by the technical reviewer and such authority has been granted by the committee or RAB, the technical reviewer should accept the review on behalf of the RAB within 60 days of receipt of the working papers from the review captain. The technical reviewer should accept engagement reviews on the RAB's behalf only if such authority has been granted and the review meets the following minimum criteria:

- a. The only matters noted and matters for further consideration (MFCs) prepared relate to compilation or preparation engagements performed in accordance with the Statements on Standards for Accounting and Review Services.
- b. The review was not subjected to oversight.
- c. The technical reviewer did not identify any reviewer performance feedback.
- d. There are no other issues associated with the peer review warranting committee consideration or action that could affect the results of the peer review.

#### *Evaluating Corrective Actions and Implementation Plans*

**.50** The technical reviewer should evaluate the results of corrective actions or implementation plans to determine if they meet the requirements imposed by the RAB. If no significant outstanding issues exist, the technical reviewer should do one of the following:

- a. Accept the review on behalf of the RAB, if such authority has been granted.
- b. Present the review to the RAB for acceptance.

(See paragraphs .09–.11 of section 420.)



**.51** If results of corrective actions or implementation plans show there are significant outstanding issues, the technical reviewer should not accept the corrective actions or implementation plans. Instead, the technical reviewer should

- a.* recommend the RAB require additional corrective actions or implementation plans and
- b.* consider and recommend whether the reviewed firm should be referred to a hearing panel for not cooperating with the requirements of the program.

**.52** The technical reviewer should evaluate due date extension requests for corrective actions and implementation plans and

- a.* approve the extension request, if such authority has been granted (see paragraph .11 of section 420), or
- b.* submit the request to the AE for RAB evaluation.

**.53** The technical reviewer should evaluate requests to waive or replace corrective actions and implementation plans and submit the requests to the AE for RAB evaluation. (Ref: par. .A42)

*Other Technical Reviewer Requirements*

**.54** Technical reviewers should be available to the RAB for questions or clarifications regarding their reviews being presented to the RAB. However, technical reviewers should not (Ref: .A43)

- a.* actively present reviews to the RAB,
- b.* make decisions on reviews on behalf of the RAB, or
- c.* vote on acceptance of reviews.

## **Application and Other Explanatory Material**

### **Scope of This Section (Ref: par. .02)**

**.A1** Individuals involved in the administration of the program include, but are not limited to,

- a.* the CPA on staff,
- b.* technical reviewers,
- c.* administrators,
- d.* committee members, and
- e.* RAB members.

### **Obligations of an Administering Entity (Ref: par. .06)**

**.A2** If an AE fails to comply with the requirements of the program, refuses to cooperate, or is found to be deficient in administering the program in compliance with these standards, the board may (pursuant to fair procedures) take appropriate remedial actions.

**.A3** The CPA on staff is responsible for evaluating whether technical reviewers are in compliance with the requirements outlined in paragraph .45, determining whether a technical reviewer’s knowledge and experience are sufficient to perform technical reviews or oversight, and managing the performance of administrators and technical reviewers, including having the appropriate authority to manage and address any performance concerns of those individuals.

**.A4** The committee may appoint individuals to serve on subcommittees and task forces as necessary to carry out its functions.

**.A5** It is recommended that the AE document its committee and RAB structure and relationship.

**.A6** Exhibit A, “Example Familiarity Threat Policies and Procedures,” provides examples of familiarity threats and potential safeguards to assist AEs in creating their policies and procedures.

**.A7** The *AICPA Peer Review Program Oversight Handbook* contains a detailed discussion of the minimum oversight requirements and the oversight process.

**.A8** Circumstances in which it may be acceptable that a review is not presented or accepted in a timely manner include, but are not limited to, the following:

- a. Determination during technical review that oversight should be performed
- b. Submitted peer review documentation requires significant revisions or there are significant delays in receiving revised documents or responses to technical reviewer questions
- c. Enhanced oversight procedures
- d. Disagreements among the reviewer, reviewed firm, technical reviewer, or the AE

### **Document Retention (Ref: par. .07)**

**.A9** AEs may rely on the electronic peer review system to retain peer review documentation in accordance with the requirements if the documents are appropriately uploaded into the system. If any peer review documents are outside of the electronic peer review system, the AE retains those documents as follows:

<b>Most Recently Completed Peer Review Documents (as Applicable)</b>	<b>Retention Period</b>	
	<b><i>Enrolled Firms</i></b>	<b><i>Unenrolled Firms<sup>1</sup></i></b>
<ul style="list-style-type: none"> <li>• FFCs</li> <li>• Firm representation letter</li> <li>• Letters requesting the reviewed firm’s completion of an implementation plan</li> </ul>	At least 120 days, but no more than 150 days, after completion of subsequent review	At least 42 months, but no more than 43 months, after the resignation, drop, or termination date

<sup>1</sup> Unenrolled firms, for purposes of document retention, are firms that resigned or were dropped or terminated from the program.

Most Recently Completed Peer Review Documents (as Applicable)	Retention Period	
	<i>Enrolled Firms</i>	<i>Unenrolled Firms<sup>1</sup></i>
<ul style="list-style-type: none"> <li>Supporting documents evidencing completion of corrective actions and implementation plans</li> <li>CART review engagement letter</li> <li>Letters relating to peer review document recall considerations</li> </ul>		
<p><i>When a firm receives a report with a pass rating:</i></p> <ul style="list-style-type: none"> <li>Peer review report</li> <li>Letter notifying the firm that its peer review has been accepted</li> <li>Letters notifying the firm that the implementation plan has been completed</li> </ul>	At least 120 days, but no more than 150 days, after completion of subsequent pass review	At least 42 months, but no more than 43 months, after the resignation, drop, or termination date
<p><i>When a firm receives a report with a non-pass rating:</i></p> <ul style="list-style-type: none"> <li>Peer review report</li> <li>Letter of response</li> <li>Letter notifying the firm that its peer review has been accepted</li> <li>Letters indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions</li> <li>Letters notifying the firm the implementation plans have been completed</li> <li>Letters notifying the firm that required actions have been completed</li> </ul>	At least 120 days, but no more than 150 days, after completion of a subsequent review with a pass report, not to exceed 3 peer reviews	At least 42 months, but no more than 43 months, after the resignation, drop, or termination date
<ul style="list-style-type: none"> <li>All other documents (for example, the Summary Review Memorandum or MFCs)</li> </ul>	<p><i>Completion Date for the Review:</i></p> <ul style="list-style-type: none"> <li>At least 120 days, but no more than 150 days, after completion of the review</li> </ul>	<p><i>Completion Date for the Review:</i></p> <ul style="list-style-type: none"> <li>At least 120 days, but no more than 150 days, after completion of the review</li> </ul>

Most Recently Completed Peer Review Documents (as Applicable)	Retention Period	
	<i>Enrolled Firms</i>	<i>Unenrolled Firms<sup>1</sup></i>
<p><i>When a firm's peer review is not completed (for example, when a firm is terminated and does not reenroll):</i></p> <ul style="list-style-type: none"> <li>All peer review documents</li> </ul>	N/A	<ul style="list-style-type: none"> <li>At least 42 months, but no more than 43 months, after the resignation, drop, or termination date</li> </ul>

**.A10** The AICPA or the AE's committee may require any or all peer review documentation for specific reviews to be retained for a longer period than specified in paragraph .07 if there are regulatory investigations, pending litigation, or other appropriate circumstances.

### **Publicizing Peer Review Information (Ref: par. .08 and .09)**

**.A11** A firm may be a voluntary member of one of the AICPA's audit quality centers or sections that requires, as a condition of membership, that certain peer review documents be open to public inspection. Other firms may voluntarily instruct their AEs to make the peer review results available to certain other state boards of accountancy. In these cases, the firm permits the AEs to make its peer review results available to the public or to state boards of accountancy. Peer review results include, as applicable, the following:

- a. Peer review report
- b. Letter of response
- c. Acceptance letter
- d. Letters acknowledged by the reviewed firm indicating that the peer review documents have been accepted with the understanding that the reviewed firm agrees to take certain actions
- e. Letters notifying the reviewed firm that certain required actions have been completed

**.A12** When there is evidence of an open ethics investigation and the firm makes an informed and voluntary waiver of confidentiality in writing, AICPA Peer Review Program staff may provide information to the AICPA Professional Ethics Division. Information available for disclosure about the firm includes, but is not limited to, the following:

- a. Fieldwork commencement date
- b. Exit conference date
- c. Review acceptance dates
- d. Levels of service and industries included in the firm's peer review information for prior or current peer reviews
- e. Levels of service and industries included in prior or current peer reviews and those determined not to be in conformity with professional standards in all material respects
- f. Signed confirmations by a firm representative that the enrolled firm did not perform any services or issue reports that would require the firm to undergo a peer review

- g. Other similar information related to a prior or current peer review

**.A13** If a firm has authorized the AE in writing to provide specific information (in addition to the information in paragraph .08) to third parties, the following (or similar) types of objective information about the review may be provided, if known:

- a. The date the review is or was scheduled to take place
- b. The name of the reviewing firm, team captain, or review captain
- c. If the fieldwork on the peer review has commenced
- d. The date the exit conference was expected to or did occur
- e. A copy of any extension approval letters
- f. Whether the peer review working papers have been received by the AE
- g. Whether a must-select engagement was included in the scope, as required by the standards
- h. If a technical review is in process
- i. Whether the review has been presented to a RAB
- j. The date the review is expected to be presented to a RAB
- k. The specific overdue letters (such as, but not limited to, scheduling the peer review or completion of remedial actions) requested by third parties

**.A14** Subjective information includes, but is not limited to, the following:

- a. A statement indicating only that the review is “in process,” or a response to an inquiry regarding the “general status” of a peer review
- b. The peer review report rating prior to the peer review’s acceptance
- c. Whether there are indications that the firm, reviewing firm, team captain, or review captain are cooperating (or not cooperating) with the AICPA or AE
- d. An indication of the quality or completeness of peer review working papers received by the AE
- e. Reasons why peer review working papers, implementation plans, or corrective actions are late
- f. Whether a firm is close to submitting documents or completing implementation plans or corrective actions
- g. Reasons for, or the likely outcome of, fair procedures to determine whether the firm is cooperating with the AICPA or the AE

### **Ethical Requirements Relating to a Peer Review (Ref: par. .10)**

**.A15** Templates for confidentiality and conflict-of-interest agreements are updated periodically by the board.

**.A16** Individuals involved in administration of the program are described in paragraph .A1; however, the requirement in paragraph .10d is limited to individuals serving as committee members, RAB members, or technical reviewers.

**.A17** Depending on the circumstances and considering the impact of their serving the public interest, possible actions are oversight of the individuals' peer reviews or having them recuse themselves from the report acceptance process (in its entirety or just from the report acceptance process for reviews with engagements in the industry or other classification addressed by the allegation or investigation).

### **CPA on Staff**

*Qualifications (Ref: par. .16)*

**.A18** The CPA on staff may perform technical reviews on a short-term basis such as when technical reviewers are unavailable for extended periods or there is a high volume of reviews. The CPA on staff may also perform technical reviews for another AE's jurisdiction.

### **Peer Review Committee**

*Composition and Qualifications (Ref: par. .17 and .19)*

**.A19** In rare circumstances, an exception may be approved by the AICPA when a request is submitted in writing that thoroughly explains why the exception should be approved for an individual that does not meet the required qualifications described in paragraph .17.

**.A20** When a committee member is not team captain-qualified but is practicing with a firm that has a non-pass rating in its most recent peer review report, the AE may consult with AICPA staff and establish safeguards to address the roles of such committee members.

**.A21** Restrictions by regulatory, monitoring, or enforcement bodies that are outside of the program may disqualify a committee member. When such a restriction relates only to the committee member's firm, the AE may consider the nature and circumstances of partial or limited restrictions to determine whether the committee member no longer meets the required qualifications.

*Responsibilities (Ref: par. .20)*

**.A22** In the event of a disagreement between the AE and either the reviewer or the reviewed firm that cannot be resolved by ordinary good-faith efforts, the AE may request that the matter be referred to the board for final resolution. The AE's committee is responsible for determining whether a disagreement exists that should be referred, and if so, may refer the matter to the board for resolution. In these circumstances, the board may consult with representatives of other AICPA committees or with appropriate AICPA staff.

### **Report Acceptance Body**

*Qualifications (Ref: par. .21 and .22)*

**.A23** A manager or person with equivalent 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.

**.A24** The AE will determine if the report has been accepted timely, which is ordinarily within three years and six months of the most recently accepted review's acceptance date. Considerations regarding timely acceptance are discussed in paragraph .A8.

**.A25** Restrictions by regulatory, monitoring, or enforcement bodies that are outside of the program may disqualify a RAB member. When such a restriction relates to the RAB member's firm, the AE may consider the nature and circumstances of partial or limited restrictions to determine whether the RAB member no longer meets the required qualifications.

*Report Acceptance Body Composition (Ref: par. .23–.24)*

**.A26** Current experience is described in paragraph .A22 of section 200.

**.A27** The appropriate must-select experience may come from a member of the RAB, another AE's RAB member, or an individual from a list of consultants maintained by the AICPA. The AE will determine if the RAB will not have the appropriate must-select experience and assign an individual with such experience prior to assigning the review to a RAB. The assigned individual with the appropriate must-select experience

- a. participates as a consultant,
- b. is not eligible to vote on acceptance of a review, and
- c. may attend the RAB meeting via teleconference.

*Peer Review Evaluation (Ref: par. .27)*

**.A28** The RAB may accept a *pass with deficiencies* or *fail* report without requiring corrective actions in certain circumstances including, but not limited to, the following:

- a. If the firm documented in its letter of response that it will no longer perform engagements in the industry or at the level of service related to the deficiencies or significant deficiencies
- b. If the firm's remediation described in its letter of response was completed and the team captain was able to review and was satisfied with the firm's action before the review was considered by the RAB

**.A29** Guidance to assist outside third parties engaged to issue reports for corrective actions or implementation plans as a result of a peer review is discussed in appendix A of section 420.

*Firm Cooperating and Complying With the Requirements of the Program (Ref: par. .35–.36 and .39)*

**.A30** After a firm receives a non-pass (*pass with deficiencies* or *fail*) peer review report, the firm is notified via a delivery method providing proof of delivery, such as via the electronic peer review system. If the firm fails to receive a pass report rating on its next peer review, it may be referred to the board for potential termination for failing to comply with the requirements of the program.

**.A31** Referral for three or more consecutive non-pass peer review reports is presumptively mandatory but that presumption may be overcome.

**.A32** When a firm has demonstrated improvement from the last peer review but other deficiencies were noted, causing a consecutive *pass with deficiencies* or *fail* report, referral to the board for failing to comply with the requirements of the program may not be necessary. In such circumstances, the firm took actions that corrected the prior deficiencies, but in doing so, may have created new deficiencies. Because the firm took remedial actions to correct the original deficiencies, the firm is deemed to have complied with the requirements of the program. Instead of referring the firm to the committee or board, the RAB may require additional corrective actions that will allow the firm to rectify the new deficiencies.

**.A33** Reasons a RAB may decide not to refer a firm for failing to comply with the requirements of the program include, but are not limited to, the following:

- a. The firm has demonstrated genuine, significant improvement from the last peer review.
- b. The firm corrected deficiencies or significant deficiencies from the prior review, but in doing so, created new deficiencies or significant deficiencies.
- c. The RAB anticipates a pass report on the firm's next peer review due to aggressive actions taken by the firm to correct the deficiencies or significant deficiencies such as a firm that incorporates outside-party pre-issuance reviews of the type of engagements that led to the deficiencies or significant deficiencies.
- d. The RAB believes that, due to the nature and significance of the deficiencies or significant deficiencies, more targeted corrective actions can assist the firm in remediation.
- e. The firm voluntarily elects to cease performing certain engagement types or engagements in certain industries specifically related to the deficiencies or significant deficiencies.

**.A34** Documentation supporting referral of a firm to the board for potential termination includes, but is not limited to, the following:

- a. Warning letters issued to the firm
- b. Evidence of other correspondence whether verbal or written
- c. Notes or assessments from RAB or committee meetings (if applicable)
- d. A timeline outlining the various communications

**.A35** Upon referral, the board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated or whether some other action should be taken. Firms whose enrollment in the AICPA Peer Review Program is terminated have the right to appeal pursuant to fair procedures established by the board.



*Considerations for the Recall of Peer Review Documents (Ref: par. .40 and .41)*

**.A36** Appendix C provides additional guidance and considerations for evaluating the potential recall of a peer review report.

**.A37** If a report was accepted more than three years and six months prior to the discovery of the information that may have affected the performance or acceptance of the peer review had it been known, recall considerations may not be necessary.

**Technical Reviewer**

*Qualifications (Ref: par. .45 and .46)*

**.A38** Peer review captain training courses are located on the Peer Review page of the AICPA website.

**.A39** An appropriate level of accounting and auditing knowledge and experience may be obtained from on-the-job training, training courses, or a combination of both.

**.A40** Technical reviewer training for single audits may be completed by taking the on-demand course developed by the AICPA or an alternative course approved by the board.

**.A41** Examples of limitations or restrictions are included in paragraph .A14 of section 200. Although that paragraph refers specifically to peer reviewers, it is also applicable to technical reviewers who are not peer reviewers.

*Evaluating Corrective Actions and Implementation Plans (Ref: par. .53)*

**.A42** The technical reviewer may provide recommendations to the RAB regarding waiving or replacing corrective actions or implementation plans, taking into consideration the guidance in paragraphs .12 and .13 of section 420.

*Other Technical Reviewer Requirements (Ref: par. .54)*

**.A43** During RAB meetings, the technical reviewer may

- a. present matters of an administrative nature, such as due date extensions;
- b. present matters requiring consultation; and
- c. respond to questions from the RAB.

***Exhibit A — Example Familiarity Threat Policies and Procedures***

**.A44** This exhibit includes examples of familiarity threats and potential safeguards used to mitigate the threats. These examples are not all-inclusive. In some instances, a safeguard could mitigate more than one threat; in other instances, however, depending on the significance of a threat, more than one safeguard may be necessary to properly mitigate it.

<b>Familiarity Threat</b>	<b>Safeguards to Mitigate the Threat</b>
<b>.01</b> The peer reviews of the technical reviewers' and committee or report acceptance body (RAB) members' firms are presented for acceptance.	<ul style="list-style-type: none"> <li>• The technical reviewers' and committee or RAB members' peer reviews will be accepted by a different administering entity (AE). We have partnered with AE "A" and have attached the agreement as addendum B.</li> <li>• The AE is split in more than one district, for example, east and west. The committee or RAB accepts reviews from a district other than its own.</li> <li>• The CPA on staff monitors the RAB process and reports preferential treatment or inconsistencies in the process.</li> <li>• The AE will designate a committee member (or other qualified individual) as an observer of RAB meetings to monitor the RAB process and report preferential treatment or inconsistencies in the process.</li> </ul>
<b>.02</b> Overreliance on committee or RAB members, which leads to other members not reading the RAB package in its entirety.	<ul style="list-style-type: none"> <li>• Arranging for RAB members from other AEs to participate in RABs</li> <li>• Having multiple committees or RABs that change composition regularly</li> <li>• Having RAB members acknowledge that they have read reviews before starting the meeting</li> <li>• Having the CPA on staff evaluate committee or RAB member performance</li> </ul>
<b>.03</b> The committee or RAB members have a long-standing relationship with the technical reviewers, which leads to overreliance on the technical reviewers' procedures and conclusions. For instance, it may not be apparent if an issue or a non-conforming engagement has been addressed, yet the committee or RAB decide not to investigate because members believe the technical	<ul style="list-style-type: none"> <li>• Engaging qualified individuals from another state to perform all technical reviews</li> <li>• Arranging for RAB members from other AEs to participate in RABs</li> <li>• Engaging a second technical reviewer to perform a selection of secondary technical reviews of high-risk reviewers, firms, and random samples</li> </ul>

Familiarity Threat	Safeguards to Mitigate the Threat
reviewer would not have missed the issue.	
.04 The committee or RAB members have long-standing relationships with some reviewers, particularly those who perform a high volume of reviews.	<ul style="list-style-type: none"> <li>• Arranging for another AE to accept an AE's high-volume reviewers' reviews</li> <li>• Annually requesting committee or RAB members to identify conflicts of interest with reviewers and reviewed firms</li> </ul>
.05 Technical reviewers have long-standing relationships with some reviewers, particularly those who perform a high volume of reviews.	<ul style="list-style-type: none"> <li>• Engaging qualified individuals from another state to perform all technical reviews</li> <li>• Arranging for another AE to accept reviews performed by a high-volume reviewer</li> <li>• Annually requesting technical reviewers to identify conflicts of interest with reviewers and reviewed firms</li> </ul>
<p>.06 AEs are hesitant to provide feedback or consider deficiency letters for a variety of reasons including, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>a. RAB members know the reviewer.</li> <li>b. The reviewer performs a high volume of reviews in the state and the RAB is afraid to offend him or her.</li> <li>c. The reviewer is a RAB member (current or former) or is a technical reviewer.</li> <li>d. The reviewer teaches for the state CPA society or has some other society relationship that leads to a belief that the individual knows what the individual is doing.</li> </ul>	<ul style="list-style-type: none"> <li>• Engaging qualified individuals from another state to perform all technical reviews</li> <li>• Arranging for RAB members from other AEs to participate in RABs</li> <li>• Annually requesting committee or RAB members to identify conflicts of interest with reviewers and reviewed firms</li> </ul>
.07 A committee member is given informal feedback on reviews the committee	<ul style="list-style-type: none"> <li>• Arranging for RAB members from other AEs to participate in RABs</li> </ul>

Familiarity Threat	Safeguards to Mitigate the Threat
member performed but a different reviewer is issued written feedback for the same issue.	<ul style="list-style-type: none"> <li>• Having the CPA on staff monitor the RAB process and report preferential treatment or inconsistencies in the process</li> <li>• Having the AE designate a committee member (or other qualified individual) as an observer of RAB meetings to monitor the RAB process and report preferential treatment or inconsistencies in the process</li> </ul>
.08 Following an enhanced oversight, the RAB has allowed the peer reviewer or reviewed firm to provide documentation not provided to the subject matter expert during the enhanced oversight (such documentation should have been provided at that time). This gives the appearance that reviewers or reviewed firms familiar to the RAB are being allowed to create working papers.	<ul style="list-style-type: none"> <li>• Arranging for specialists from other states to participate in RABs</li> <li>• Arranging for RAB members from other AEs to participate in RABs</li> <li>• Having the CPA on staff monitor the RAB process and report preferential treatment or inconsistencies in the process</li> </ul>
.09 RAB members mention a firm's reputation regarding a specific industry concentration when presented with issues (generally documentation issues), implying that because issues were not identified previously, it is unlikely issues exist now despite evidence to the contrary.	<ul style="list-style-type: none"> <li>• Arranging for specialists from other states to participate in RABs</li> </ul>

## ***Appendix A — Failure to Cooperate or Comply With the Requirements of the Program Referral Responsibilities***

**.A45** This appendix describes the responsibilities of the peer review committee (committee) and report acceptance body (RAB) when a firm fails to cooperate or comply with the requirements of the program. Additional information regarding cooperating and complying with the requirements of the program is included in paragraphs .13–.18 of section 300, *General Principles and Responsibilities for Reviewed Firms*.

<b>Failure of a Firm to Comply With the Requirements of the Program</b>	<b>Report Acceptance Body Responsibility</b>	<b>Peer Review Committee Responsibility</b>
<b>.01</b> Once the review has commenced, not responding to inquiries or not providing any information necessary to ensure the review is accepted and completed	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.02</b> Withholding information significant to the peer review	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.03</b> Not providing documentation including but not limited to the representation letter, quality control documents, engagement working papers, and all elements of the firm's system of quality control	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.04</b> Not responding to matters for further consideration or findings for further consideration timely	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.05</b> Limiting access to offices, personnel, or others once the review has commenced	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.06</b> Not facilitating the arrangement for the exit conference on a timely basis	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.07</b> Failing to timely file a letter of response, if applicable	Referral to board hearing panel must be supported by simple majority vote.	No action required.

<b>Failure of a Firm to Comply With the Requirements of the Program</b>	<b>Report Acceptance Body Responsibility</b>	<b>Peer Review Committee Responsibility</b>
<b>.08</b> Failing to cooperate during oversight	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.09</b> Failing to timely acknowledge and complete required corrective actions or implementation plans	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.10</b> Failing to ensure that its peer review is submitted to the administering entity timely	Referral to board hearing panel must be supported by simple majority vote.	No action required.
<b>.11</b> Failing to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the same peer review	Recommendation to full peer review committee must be supported by RAB simple majority vote.	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee.
<b>.12</b> Failing to provide the administering entity a substantive response, and the firm does not revise its response or provides additional responses that are not substantive as determined by the administering entity	Recommendation to full peer review committee must be supported by RAB simple majority vote.	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee.
<b>.13</b> Failing to provide substantive responses during the administering entity's process of determining if erroneously provided or omitted information by a firm that results in a significant change in the planning, performance, evaluation of results, or peer review report is a matter of noncooperation	Recommendation to full peer review committee must be supported by RAB simple majority vote.	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee.
<b>.14</b> Failing to timely notify the administering entity that the firm is performing a type of engagement or engagements in an industry in which the firm had previously represented by written communication to the administering entity that it was no longer performing and had no plans to perform, in response to a related corrective action or implementation plan wherein the corrective action or implementation plan was	Recommendation to full peer review committee must be supported by RAB simple majority vote.	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee.

<b>Failure of a Firm to Comply With the Requirements of the Program</b>	<b>Report Acceptance Body Responsibility</b>	<b>Peer Review Committee Responsibility</b>
eliminated by the administering entity based on the representation		
<b>.15</b> Deficiencies or significant deficiencies indicate the firm is so seriously deficient in its performance that educational and remedial corrective actions or implementation plans would not be adequate	Recommendation to full peer review committee must be supported by RAB simple majority vote.	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee.
<b>.16</b> Other instances of noncooperation for which determination of sufficiency or appropriateness of firm actions warrant consideration by the administering entity's peer review committee	Recommendation to full peer review committee must be supported by RAB simple majority vote.	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee.
<b>.17</b> Receiving consecutive non-pass peer review reports and the second report is a <i>pass with deficiencies</i>	Assessment by the RAB after corrective actions related to the second non-pass review are submitted. Recommendation to the full peer review committee must be supported by RAB simple majority vote.	Assessment by the committee, referral to board hearing panel must be supported by two-thirds vote of full peer review committee.
<b>.18</b> Receiving consecutive non-pass peer review reports and the second report is a <i>fail</i>	Assessment by the RAB after corrective actions related to the second non-pass review are submitted. Referral to the board is presumptively mandatory and must be supported by RAB simple majority vote.	No action required.
<b>.19</b> Receiving a third consecutive non-pass peer review report.	Assessment by the RAB. Referral to the board is presumptively mandatory and must be supported by RAB simple majority vote.	No action required.

## ***Appendix B — Disagreements***

### **.A46**

#### **Disagreements**

**.01** Professional judgment is part of the peer review process and individuals have the right to challenge one another on an issue. As such, disagreements may arise between parties to a peer review and include, but are not limited to, the following:

- a. The type of peer review report to be issued
  - b. The application of professional standards related to the review of an engagement
  - c. The systemic cause of a deficiency or issues related to a design or compliance deficiency
  - d. Whether the performance or reporting (or both) on an engagement results in a nonconforming engagement
  - e. Whether actions planned or taken by the firm to address findings or deficiencies or to remediate nonconforming engagements, if any, are appropriate
- After acceptance of a peer review, whether peer review documents should be recalled (See paragraphs .40–.42 of section 400, *General Principles and Administration Responsibilities*.)

**.02** Reviewers and reviewed firms may consult the administering entity (AE) for assistance in resolving disagreements and, if necessary, request that the AE form a disagreement panel to resolve the disagreements. A disagreement panel may be requested by any disagreeing party.

#### **AE Considerations When Establishing Policies and Procedures Related to Disagreements**

**.03** Policies and procedures for handling disagreements between any parties to a peer review include, but are not limited to, the following:

- a. If a reviewed firm disagrees with one or more of its review team's conclusions, either party may consult with the AE. The AE attempts to resolve the disagreement, which may include discussions with the technical reviewer or the performance of oversight procedures. Additional matters may be identified in this process and may result in findings or deficiencies.
- b. After consultation with the AE, if the reviewed firm still disagrees with one or more of the review team's conclusions, the reviewed firm may
  - i. describe the reasons for the disagreement in the matters for further consideration, findings for further consideration, or the letter of response or
  - ii. request that the disagreement be referred to a disagreement panel prior to presentation to the report acceptance body (RAB).
- c. If the reviewed firm requests that the disagreement be referred to a panel of committee members (disagreement panel) for consideration, the AE follows procedures in the [\*Disagreement Panels\*](#) section of this appendix.



- d. Once the disagreement panel has reached a decision, even if the firm or reviewer still disagree, the issue is considered resolved by the AE. A decision letter containing the actions required by each party to cooperate with the committee will be sent to the firm and review team.
- e. Any of the disagreeing parties may request an appeal of the decision of a disagreement panel relating to a deficiency or significant deficiency (report-level issues, including corrective actions) by writing the board within 30 days of the decision. (See the section [\*“Appeals of Disagreement Panel Decisions.”\*](#))

#### Disagreement Panels

**.04** The objective of a disagreement panel is to assist the disagreeing parties in resolving issues. A disagreement panel may be requested by any disagreeing party.

**.05** Requests for a disagreement panel

- a. are submitted in writing to the AE via a method providing proof of delivery (including electronic means).
- b. provide details of the basis for the disagreeing parties’ positions including, at a minimum,
  - i. the issue or issues to be resolved,
  - ii. reference to applicable professional standards, and
  - iii. a chronology of events with references to supporting documents (including relevant peer review documents).
- c. include any supporting documentation.

**.06** Supporting documents may include, but are not limited to,

- a. peer review documents,
- b. team or review captain working papers,
- c. administrative and technical reviewer checklists, and
- d. oversight reports.

**.07** The disagreement panel

- a. occurs within 60 days of receipt of the request for the disagreement panel.
- b. consists of at least three committee members who are independent of the disagreeing parties and not involved in the acceptance of the review.
- c. includes members with practice experience commensurate with the area or industry reviewed.
- d. may include independent committee members from another AICPA approved AE.
- e. is led by one member of the panel serving as the chair.

**.08** A notice informing the panel members and disagreeing parties of the date, time, and conference call information is sent at least 30 days in advance of the date of the panel. The notice includes the basis for the panel request and any supporting documentation submitted by the disagreeing parties.

**.09** If new information relevant to the disagreement becomes available after the original submission of supporting documentation, such documentation is to be sent to the panel members only if the documentation can be provided for panel consideration at least 14 days prior to the panel date.

**.10** In addition to providing written comments to the panel members for consideration, each disagreeing party has the right to participate in the panel. Participation includes the opportunity to make a presentation to the panel, respond to questions, or both. If either party is unable or chooses not to participate, the panel will consider that party's position based on written correspondence received prior to the panel.

**.11** At the discretion of the panel, AICPA staff may participate to provide guidance related to peer review standards.

**.12** During the panel, the panel members discuss the disagreement, including the supporting documentation submitted by the disagreeing parties; the basis for the disagreement; and how the panel should resolve the disagreement. The panel may ask any questions and request additional information from the disagreeing parties, the AE, or AICPA staff to assist it in making its decision.

**.13** The panel (and, at the discretion of the panel, AICPA staff) then discuss the issue or issues in executive session without the disagreeing parties present. The panel may

- a. recommend performing oversight on the peer review or engagement allowing the results of the oversight to assist them in resolving the disagreement.
- b. identify additional matters that may result in findings or deficiencies.
- c. adjourn to a later date, as determined by the panel, to enable it to reach a decision.

**.14** The decision of the panel is provided to all parties immediately following the panel's decision. A written communication of the panel's decision is sent to all parties within three business days of the panel's decision.

#### *Appeals of Disagreement Panel Decisions*

**.15** Any of the disagreeing parties may request an appeal of the decision of a disagreement panel relating to a deficiency or significant deficiency (report-level matters) by writing the board and explaining why the party believes a review of the panel's decision is warranted. The request includes the disagreement panel decision letter, all documents provided to the disagreement panel, and any additional evidence supporting the appeal.

**.16** An AICPA disagreement review panel will review and consider the appeal or request for review and take further action pursuant to fair procedures established by the board.

**.17** The objective of the AICPA disagreement review panel is to assess the facts to determine whether the decision relating to a deficiency or significant deficiency (report-level issues,

including corrective actions) of the earlier disagreement panel was appropriate and to provide procedural fairness by acting as an appeal mechanism.

**.18** Decisions by the AICPA disagreement review panel are final.

## ***Appendix C — Considerations for the Recall of Peer Review Documents***

**.A47**

### **Overview**

**.01** AICPA staff are notified and consulted when peer review documents are being considered for recall. (Ref: par. .42a of section 400, *General Principles and Administration Responsibilities*)

**.02** After the date of acceptance, neither the administering entity (AE) nor the reviewer have any obligation or expectation to perform any other peer review procedures with respect to the peer review report, acceptance letter, or letter of response, if applicable (referred to hereafter in this section as *peer review documents*), unless information that may affect an accepted peer review comes to either party's attention. Such information may come from various sources such as

- a. the AE,
- b. publicly available information,
- c. reviewers,
- d. AICPA staff, or
- e. other substantiated and reliable sources.

**.03** The committee's decision to recall an acceptance letter invalidates the related peer review report and letter of response, if applicable, because it creates a situation in which the reviewed firm's peer review documents are no longer accepted by the AE. The committee may delegate the recall of a peer review acceptance letter to the RAB.

**.04** The reviewer's decision to recall the peer review report necessitates recall of the related acceptance letter because such acceptance is not effective without the underlying report.

**.05** If peer review documents are recalled, responsibilities of the parties involved include the following:

- a. The AE notifies applicable state boards of accountancy via letter, in jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, to inform them that the date of acceptance and period covered by the firm's most recently accepted peer review have changed and to contact the firm for further information. If a replacement review is allowed, the AE sends a similar communication in accordance with paragraph .08 of section 400 when that review is accepted.
- b. The firm removes the recalled peer review documents from publicly available sources (such as the firm's website) and notifies all parties that might be relying on those documents to discontinue reliance.
- c. The reviewer follows guidance for replacement reviews as addressed in paragraphs .17–.20, if applicable.

### **Potential Reasons for Recall of Peer Review Documents**

**.06** AICPA and AE staff may assist the committee in investigating whether the recall of peer review documents is appropriate. Recalling previously accepted peer review documents is considered in situations including, but not limited to, the following:

- a. *Errors or omissions — Material departures directly affecting the peer review report* (See paragraph .08.)
  - i. The firm had an engagement review and failed to inform the AE or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known to the AE or reviewer.
  - ii. The firm performed an engagement in a must-select category during the period covered by the peer review, and the reviewer did not consider or select a comparable must-select engagement during the system review.
- b. *Errors or omissions — Other departures that may affect the peer review report* (See paragraphs .09–.11.)
  - i. The firm had an engagement review and failed to inform the AE or reviewer that the firm performed a particular level of service required to be selected in an engagement review, and the reviewer did not consider or select a comparable engagement during the engagement review. For instance, compilations with disclosures were included in the engagement review, but compilations without disclosures performed by the firm were not considered in the engagement review.
  - ii. The firm omitted or misrepresented information relating to its accounting and auditing practice, other than instances covered under item (a).
  - iii. The firm failed to inform the reviewer of communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported on by the firm or limitations or restrictions on the firm’s ability to practice public accounting related to the firm or its personnel within the three years preceding the firm’s current peer review year-end and through the date of the exit conference.
  - iv. The firm provided erroneous information in response to inquiries from the AE, staff, or reviewer in relation to the peer review.
- c. *Reviewer disqualifications* (See paragraphs .12–16.)
  - i. The reviewer or reviewing firm was not qualified (was ineligible) to perform the peer review or issue the peer review report because certain peer reviewer qualifications were not met at the time of the review, and this was not made known to staff or the AE during the scheduling, performance, or acceptance of the review.
  - ii. The reviewer or reviewing firm failed to inform staff or the AE about limitations or restrictions on the reviewer or reviewing firm’s ability to practice public accounting. Considerations for recalling peer review documents are not necessary if there are allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported by the

reviewer or reviewing firm that are discovered subsequent to the acceptance of the peer review but that have not resulted in limitations or restrictions on the reviewer's or reviewing firm's ability to practice public accounting.

### *Voluntary Correction Program*

**.07** Firms that voluntarily notify the AE of an omission or misrepresentation resulting in a material departure will not be subject to a hearing panel. This notification from the firm must be prior to the AICPA or AE being otherwise notified of or discovering the omission or misrepresentation and prior to the firm receiving notification from another regulatory or monitoring agency. The peer review acceptance letter will be recalled and the firm will be required to undergo a replacement review due approximately 90 days after the firm's notification to the AE.

### *Material Departures*

**.08** For errors or omissions directly affecting the peer review report (the type of peer review, period covered, or must-select categories), the committee is not required to deliberate on whether to recall the acceptance letter. In such situations, responsibilities are as follows:

- a. *AE to contact the firm and reviewer.* After the information and evidence are confirmed as factual and reliable, the AE documents the situation in a notification that is sent to the firm by a means that provides proof of delivery (including electronic means) and copied to the reviewer and AICPA staff. This notification
  - i. includes evidence supporting the error or omission,
  - ii. provides the firm the opportunity to dispute the evidence,
  - iii. indicates that the acceptance letter will be recalled,
  - iv. informs the firm it will be subject to a hearing panel of the board to consider whether to terminate the firm's enrollment in the program, and
  - v. informs the firm that if its enrollment in the program is not terminated, it will be required to undergo a replacement review due approximately 60 days from the date of the hearing panel's decisions and that the panel may also indicate other sanctions or specific criteria for the replacement review.

The peer review documents are recalled when

- i. the firm acknowledges the notification and does not dispute the evidence, or
  - ii. the AE has proof of delivery of the notification (including via electronic means) and the firm has not disputed the evidence or acknowledged the notification timely.
- b. *Reviewer considers recall.* The reviewer responds to the notification in writing (this may include electronic means) about the decision to recall the peer review report. Unless the reviewer recalls the peer review report, the reviewer will not be allowed to revise the peer review report or perform the firm's replacement review.

If the notification regarding the material departure occurs within 120 days of the peer review completion date, the reviewer continues to retain the working papers for the

recalled review until completion of the revised or replacement review. The hearing panel may allow the reviewer to perform additional procedures and issue a revised report.

*Other Departures That May Affect the Peer Review Report*

**.09** For errors or omissions that may affect the peer review report (the type of peer review, period covered, or must-select categories), the reviewer and committee independently consider the potential impact of the information on the results of the peer review. The peer review documents are recalled if the nature and effect of the matter are such that the reviewer or committee believes

- a. the peer review procedures, report, or both would have been affected if the information had been known to the reviewer as of the date of the report and
- b. persons who may attach importance to the omission or error are currently relying, or are likely to rely, on the peer review report.

**.10** Examples of situations in which recall of the peer review documents is not necessary include the following:

- a. The new information relates to one specific partner, the working papers are within the retention period, and a similar type engagement from that partner was included within the peer review.
- b. In an engagement review, the reviewer becomes aware that the firm performed a review engagement that was not included in the firm's population of engagements and was therefore not subject to selection. The reviewer reviews the engagement and concludes that the inclusion of such engagement within the scope of the review would not have changed the peer review report.

**.11** The reviewer communicates the decision of whether to recall the peer review report in writing (this may include electronic means) to the committee. If the committee has substantial reason to question the reviewer's decision not to recall the report, the committee consults AICPA staff and may undertake further measures.

*Reviewer Disqualification*

**.12** When it comes to the attention of AICPA staff that a reviewer does not meet the qualifications to perform peer reviews, staff will notify the reviewer and applicable AEs. Staff will perform an analysis to determine if there are reviews that have been accepted that may have been performed when the reviewer was not qualified and notify affected AEs.

**.13** The reviewer and committee independently consider the potential impact on the results of reviews performed when the reviewer was ineligible. The peer review documents are recalled if the reviewer disqualification would have caused a significant change in the planning, performance, evaluation of results, or peer review documents.

**.14** The reviewer considers whether to voluntarily recall peer review reports issued when the reviewer was not qualified and inform the AE of the decision prior to informing the affected firms. The reviewer summarizes the basis for whether to recall each report and provides the summary to the AE promptly, but no later than 30 days from being notified of the issue.

**.15** The committee (or the AE on behalf of the committee) contacts AICPA staff to discuss the impact the missing qualifications may have on reviews performed by the reviewer. This may result in

- a. additional procedures by an individual acceptable to the committee, possibly at the disqualified reviewer's expense;
- b. partial or full additional procedures regarding working papers, covering all related documents underlying the peer review or limited to certain aspects affected by the disqualified reviewer; or
- c. other procedures to determine the impact of the missing qualifications.

**.16** Any additional procedures performed due to the missing qualifications

- a. occur within 30 days following the reviewer's decision not to recall the report and
- b. are fully reported on to the committee.

### **Replacement Review Considerations**

**.17** For a replacement review related to a material departure, the reviewer

- a. evaluates the systemic cause for the error or omission;
- b. prepares a matter for further consideration (MFC), at minimum; and
- c. ensures the replacement peer review report does not reference a previously issued and recalled report.

**.18** If the peer review completion date was within 120 days of notification of the material departure and the original reviewer is allowed to perform additional procedures and issue a revised report, the reviewer submits any additional documentation and any documentation that significantly changed as a result of the additional procedures, including, at a minimum, the following:

- a. A revised Summary Review Memorandum or other memo addressing the omission or error in detail and fully explaining the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recommendations, or report rating
- b. A signed representation letter from the firm, specifically addressing the circumstances regarding information previously omitted or provided in error
- c. A revised report that is dated the date the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date)

**.19** If the peer review completion date is more than 120 days beyond the notification of the material departure, or the hearing panel requires a new review to be performed, the hearing panel may specify the period the replacement review covers. If the panel does not specify a period, the firm and approved reviewer

- a. consider whether it is appropriate for the replacement review to cover the same period or a subsequent period to include the previously omitted engagements considering such factors as
  - i. the significance of and risks related to the omitted information or engagements or subsequently completed engagements,
  - ii. time elapsed,
  - iii. regulatory requirements, and



- iv. the established due date of the firm's replacement review
- b. may consult with the AE to determine an appropriate period for the replacement review to cover.

.20 The following examples can assist when determining the period to be covered by the replacement review:

**Example 1. *Firm no longer performs similar engagements (Discovery within 12 months of review year-end; replacement review of same period)***

A firm failed to inform the AE or reviewer that it performed a particular level of service requiring a system review (engagement year-end June 30, 20X1) for the period under review (January 1, 20X1, to December 31, 20X1), and the firm no longer performs that level of service after the period covered by the recalled review. If 12 months or less have elapsed between the period covered by the recalled review and the notification of the material departure (notification made prior to December 31, 20X2), another peer review of the original period (January 1, 20X1, to December 31, 20X1) that includes the level of service that caused the replacement review would be appropriate. If reviewing a subsequent 12-month period would not include the level of service or engagements in question, then a replacement review of a subsequent period may not be appropriate.

**Example 2. *Firm no longer performs similar engagements (Discovery more than 12 months after recalled review year-end; replacement review of subsequent period)***

A firm failed to inform the administering entity or reviewer that it performed must-select engagements (engagement year-end June 30, 20X1) for the period under review (January 1, 20X1, to December 31, 20X1), and the firm no longer performs engagements in the same must-select category after the period covered by the recalled review. If more than 12 months have elapsed between the period covered by the recalled review and the notification of the material departure (discovery communicated after December 31, 20X2), a replacement review of a subsequent period that includes the previously omitted engagements within scope would be appropriate. The greater the number of prior-year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engagements were previously omitted, this may prompt re-performance of the peer review of the original period.

**Example 3. *Firm continues to perform similar engagements***

A firm failed to inform the administering entity or reviewer that a particular level of service requiring a system review was performed or neglected to disclose that it performed a must-select engagement (engagement year-end June 30, 20X1) for the period under review (January 1, 20X1 to December 31, 20X1), and the firm has or will continue to perform similar engagements. The replacement review should include the most recently completed engagement similar to those previously omitted. The period covered should consider the time elapsed between the period covered by the previous peer review and the notification of the material departure.

In all the preceding examples, the firm's next peer review will have a due date of three years and six months from the year-end of the replacement review.

## **PR-C Section 410, *The Report Acceptance Process***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains requirements and application material for the administering entity (AE), peer review committee (committee), report acceptance body (RAB) and technical reviewers regarding the evaluation and acceptance of all reviews. For purposes of this section, it is assumed that the committee has delegated the report acceptance function to the RAB, whose members may be, but are not required to be, members of the committee. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*, and section 400, *General Principles and Administration Responsibilities*. Additionally, individuals involved in the administration of the program should be familiar with reviewer and firm requirements in the following PR-C sections:

- a. Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*
- b. Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*
- c. Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*
- d. Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*

#### **Effective Date**

**.02** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objective**

**.03** The objective of the report acceptance process is to outline the committee's responsibility to ensure that it considers the results of peer reviews it administers that are undertaken to meet the requirements of the program.

### **Definitions**

**.04** A list of terms applicable to this section are defined in paragraph .11 of section 100.

### **Requirements**

#### **Technical Reviewer's Evaluation of System Reviews**

**.05** The evaluation of a system review should include consideration of the following (as applicable):

- a.* Peer review report and letter of response
- b.* Firm representation letter
- c.* Summary Review Memorandum
- d.* Scope and results of engagements selected for review
- e.* Matters for further consideration (MFCs)
- f.* Findings for further consideration (FFCs)
- g.* Disposition of Matters for Further Consideration (DMFC)
- h.* Oversight report
- i.* The engagement profile and the supplemental peer review checklist for single audits, which includes the explanation of “no” answers and other comments (Ref: par. .A1)
- j.* Explanation of no answers for quality control checklists
- k.* The firm’s prior
  - i.* peer review report and letter of response,
  - ii.* FFCs,
  - iii.* firm representation letter, and
  - iv.* letters detailing required corrective actions or implementation plans
- l.* Any other information that may affect the evaluation or results of the review
- m.* In addition to consideration of (*a*)–(*l*), for reviews administered by the National Peer Review Committee,
  - i.* engagement checklists,
  - ii.* quality control checklists, and
  - iii.* staff or focus group interviews

**.06** The evaluation of whether system review documentation provides satisfactory evidence of compliance with the standards and supports the conclusions reached should include considering the following (as applicable):

- a.* If an appropriate risk analysis was documented
- b.* If the reviewer used a systemic approach
- c.* If the peer review documents support any FFCs, deficiencies, significant deficiencies, and the report rating
- d.* If the firm’s responses on FFCs or the letter of response are in accordance with standards
- e.* If the firm’s actions, planned or taken, to remediate nonconforming engagements appear appropriate and in accordance with professional standards
- f.* If the DMFC addresses all MFCs and appears appropriate
- g.* If past reviewer performance feedback has an impact on the current review

- h.* If the review meets consent agenda criteria, if applicable

**.07** For system reviews that require RAB evaluation, the technical reviewer should provide the RAB with the necessary information to properly evaluate the review. (Ref: par. .A2)

### **Technical Reviewer's Evaluation of Engagement Reviews**

**.08** The evaluation of an engagement review should include consideration of the following (as applicable):

- a.* Peer review report and letter of response
- b.* Firm representation letter
- c.* Review Captain Summary
- d.* Scope and results of engagements selected for review
- e.* MFCs
- f.* FFCs
- g.* DMFC
- h.* Oversight report
- i.* The firm's prior
  - 1. peer review report and letter of response,
  - 2. FFCs,
  - 3. firm representation letter, and
  - 4. letters detailing required corrective actions or implementation plans
- j.* For reviews with a committee-appointed review team, all peer review working papers
- k.* Any other information that may affect the evaluation or results of the review

**.09** The evaluation of whether engagement review documentation provides satisfactory evidence of compliance with the standards and supports the conclusions reached should include considering the following (as applicable):

- a.* If the engagements selected for review conform to standards
- b.* If the report, FFCs, and letter of response are in accordance with standards
- c.* If the firm's actions, planned or taken, to remediate nonconforming engagements appear appropriate and in accordance with professional standards
- d.* If the DMFC addresses all MFCs and appears appropriate
- e.* If past reviewer performance feedback has an impact on the current review
- f.* If the review should be presented to the RAB or accepted by the technical reviewer on behalf of the RAB (see paragraph .11)
- g.* If the review meets consent agenda criteria, if applicable

**.10** For engagement reviews that require RAB evaluation, the technical reviewer should provide the RAB with necessary information to properly evaluate the review. (Ref: par. .A3)

### **RAB Peer Review Evaluation**

**.11** The AE should provide meeting materials to RAB members at least seven days in advance of the date of the RAB meeting in order to allow every RAB member adequate time to read the documents and be prepared to discuss the reviews being considered for acceptance. At a minimum, the following documents, if applicable, should be included to assist the RAB in its evaluation: (Ref: par. .A4–.A5)

- a. Peer review report and letter of response
- b. Firm representation letter
- c. Summary Review Memorandum or Review Captain Summary (for system or engagement reviews, respectively)
- d. Scope and results of engagements selected for review
- e. MFCs
- f. FFCs
- g. DMFC
- h. Oversight report
- i. The technical reviewer's summary and recommendations (which may be documented in the technical reviewer's checklist)
- j. The firm's prior
  - i. peer review report and letter of response,
  - ii. FFCs,
  - iii. firm representation letter, and
  - iv. letters detailing required corrective actions or implementation plans

**.12** The RAB's evaluation of each peer review presented for acceptance, including those on the consent agenda, includes consideration of the technical reviewer's recommendations and the following: (Ref: par. .A6–.A7)

- a. Whether the review was performed and reported in accordance with the standards (see section 210 or section 220 for specific requirements)
- b. Whether the reviewed firm's plan to remediate nonconforming engagements is in accordance with professional standards, and for system reviews, consideration of other weaknesses in the firm's system of quality control if the firm's remediation plan is not in accordance with professional standards
- c. Whether matters have been appropriately evaluated in accordance with the standards
- d. Whether FFCs, the report, the firm's representation letter, and the firm's letter of response, if applicable, are in accordance with the standards
- e. Whether corrective actions related to deficiencies or significant deficiencies in the report should be required (see paragraphs .07–.08 of section 420, *Corrective Actions and Implementation Plans*)

- f. Whether an implementation plan related to findings on FFCs should be required (see paragraphs .07–.08 of section 420)
- g. Whether reviewer performance feedback should be issued (see paragraphs .01–.17 of section 430)

### **Criteria for Delayed or Deferred Acceptance**

**.13** The RAB should use professional judgment in determining whether it is appropriate to accept or delay or defer acceptance of a peer review.

#### *Delayed Acceptance*

**.14** The RAB should delay acceptance of a peer review for minor revisions including, but not limited to, the following: (Ref: par. .A8–.A10)

- a. For peer review reports and letters of response:
  - i. Failure to indicate that a deficiency or significant deficiency is repeated from the prior peer review
  - ii. Misleading grammar or excessively ambiguous language
  - iii. Misquoted professional literature
  - iv. References to professional standards unrelated to the subject matter
  - v. For system reviews, failure to identify the industry and level of service for any deficiencies or significant deficiencies that are industry specific or related to a nonconforming must-select engagement
- b. For FFCs:
  - i. References to the applicable professional standards are incorrect or not provided.
  - ii. The MFC that led to the finding is not identified.
  - iii. The type of matter is incorrect.
  - iv. A repeat finding is not identified or is incorrectly identified.
  - v. The scenario that led to the finding is not provided.
  - vi. References to the specific industry or type of engagement related to a nonconforming engagement, if applicable, are not provided.
  - vii. The reviewer's description of the finding is not clear.
  - viii. The form is not signed by an authorized representative of the firm.
  - ix. For system reviews, references to the applicable requirements of the Statements on Quality Control Standards are incorrect or not provided.
- c. For MFCs:
  - i. Forms are not completed properly or fully.

- ii. Firm or client references are included on the MFC.

### Deferred Acceptance

**.15** The RAB should defer acceptance of a review if there are unresolved questions significant enough that no decision can be made until further information is received and for significant revisions including, but not limited to, the following: (Ref: par. .A11–.A13)

- a. For peer review reports and letters of response:
  - i. There are significant departures from the standard report formats.
  - ii. An incorrect type of report has been issued or deficiencies or significant deficiencies are omitted.
  - iii. The firm’s letter of response does not appropriately address deficiencies or significant deficiencies.
  - iv. Nonconforming engagements are not appropriately addressed by the firm, including responses that are unacceptably noncommittal, vague, or otherwise unclear or not responsive.
  - v. Deficiencies or significant deficiencies appear to set standards higher than those mandated by professional standards.
  - vi. For system reviews, deficiencies or significant deficiencies are not written systemically or systemic causes are not clear, or the firm’s letter of response to address the systemic cause is vague or noncommittal.
- b. For FFCs:
  - i. The reviewer’s description of the finding is not clear and, on system reviews, does not include the systemic cause of the finding.
  - ii. The reviewed firm’s response does not appear comprehensive, genuine, and feasible.
- c. For any other peer review documents, revisions are necessary for the RAB to conclude whether the review was performed and reported on in accordance with standards.

## **Application and Other Explanatory Material**

### **Technical Reviewer’s Evaluation of System Reviews (Ref: par. .05 and .07)**

**.A1** The RAB may delegate the review of the engagement profile and the supplemental peer review checklist for single audits to the technical reviewer if the technical reviewer has completed CPE as required by paragraph .45e of section 400. The technical reviewer may request that a member of the RAB perform the technical review of such documents when the technical reviewer has not obtained the required CPE.

**.A2** The technical reviewer may provide information about the following, as applicable, to the RAB to assist them in evaluating a system review (this list is not all-inclusive):

- a. Administrative compliance issues such as
  - i. year-end changes,
  - ii. due date extensions,
  - iii. significant delays in presentation,
  - iv. team member qualifications and approvals,
  - v. reviewed firm or reviewer referral database entries, and
  - vi. significant reviewer performance issues
- b. The overall effect of matters, findings, deficiencies, or significant deficiencies on the review results
- c. The reviewer's assessment of peer review risk (including inherent, control, and detection risk) to provide a basis for engagement selections and extent and location of procedures performed
- d. Whether the reviewer identified all matters and appropriately elevated them to findings, deficiencies, or significant deficiencies
- e. Whether the reviewer identified the appropriate systemic causes for any findings, deficiencies, or significant deficiencies
- f. The effect of nonconforming engagements on the review, including
  - i. potential reporting implications,
  - ii. the reviewer's consideration of expansion of scope,
  - iii. the firm's planned or taken remediation, and
  - iv. whether the reviewer adequately considered implications of an unresponsive firm
- g. Recommendations regarding
  - i. acceptance of the review (see paragraphs .13–.15, which address reasons for delayed or deferred acceptance),
  - ii. corrective actions and implementation plans (see paragraphs .07–.08 of section 420),
  - iii. captain or review team feedback (see paragraphs .01–.17 of section 430, *Reviewer Monitoring and Performance*),
  - iv. any oversight procedures,
  - v. expansion of scope, and
  - vi. any other issues the technical reviewer believes warrant RAB evaluation
- h. Firms whose current review and two most recently accepted reviews resulted in a non-pass report (*pass with deficiencies* or *fail*) that may be referred to a hearing panel for failing to comply with the requirements of the program (see paragraphs .35–.39 of section 400, *General Principles and Administration Responsibilities*)
- i. Whether there are any unresolved issues or disagreements that could affect the peer review results
- j. Significant issues identified in electronic data, such as
  - i. the firm's scheduling information and
  - ii. specific risks identified in the firm's practice such as a new must-select industry

**Technical Reviewer's Evaluation of Engagement Reviews (Ref: par. .10)**



**.A3** The technical reviewer may provide information about the following, as applicable, to the RAB to assist them in evaluating an engagement review (this list is not all-inclusive):

- a. Administrative compliance issues such as
  - i. year-end changes,
  - ii. due date extensions,
  - iii. significant delays in presentation,
  - iv. team member qualifications and approvals,
  - v. reviewed firm or reviewer referral database entries, and
  - vi. significant reviewer performance issues
- b. The overall effect of matters, findings, and deficiencies on the review results
- c. The scope of engagements selected for review
- d. Whether the reviewer identified all matters and appropriately elevated them to findings or deficiencies
- e. Nonconforming engagements and the firm's planned or taken remediation
- f. Recommendations regarding
  - i. acceptance of the review (see paragraphs .15–.23, which address reasons for delayed or deferred acceptance),
  - ii. corrective actions and implementation plans (see paragraphs .07–.08 of section 420),
  - iii. captain or review team feedback (see paragraphs .01–.25 of section 430),
  - iv. any oversight procedures, and
  - v. any other issues the technical reviewer believes warrant RAB evaluation
- g. Firms whose current review and two most recently accepted reviews resulted in non-pass reports (*pass with deficiencies* or *fail*) that may be referred to a hearing panel for failing to comply with the requirements of the program (see appendix A, “Failure to Cooperate or Comply With the Requirements of the Program Referral Responsibilities,” of section 400)
- h. Whether there are any unresolved issues or disagreements that could affect the peer review results

#### **RAB Peer Review Evaluation (Ref: par. .11 and .12)**

**.A4** The meeting may be conducted in person or via conference call.

**.A5** To further assist with its evaluation, the RAB may request that the engagement profile and the supplemental checklist for single audits, including the explanation of “no” answers and other comments, be included with the materials required by paragraph .11.

**.A6** The RAB is authorized to make inquiries or request additional actions it considers necessary in the circumstances to properly evaluate the review. Such inquiries or actions include, but are not limited, to requesting

- a. an expansion of scope,
- b. corrections or clarifications to peer review documents,
- c. all peer review documentation from the team or review captain not previously provided, and
- d. oversight of engagements or peer review documents.

.A7 The RAB may refer difficult or problem reviews to the committee for acceptance or concurrence, or both.

### **Criteria for Delayed or Deferred Acceptance**

#### *Delayed Acceptance (Ref: par. .14)*

.A8 The responsibility to approve revised peer review documents may be delegated to the technical reviewer or an individual member of the RAB.

.A9 Requesting revisions to the peer review report is not necessary in the following circumstances:

- a. System review report deficiencies or significant deficiencies contain a reference to the specific number of engagements where the matters were noted rather than using general terms such as *few* or *some*.
- b. Multiple deficiencies or significant deficiencies could have been combined.
- c. Deficiencies or significant deficiencies where the reviewed firm understands the substance and responds appropriately but the deficiency or significant deficiency is not written clearly.

.A10 If the RAB delays acceptance of a review, a letter is sent to the captain and firm to request that the applicable parties revise the identified documents before the peer review can be accepted. The letter also advises the firm that once the RAB is satisfied, the RAB will submit an acceptance letter that may outline certain additional corrective actions, which the firm will be required to acknowledge prior to the review being accepted.

#### *Deferred Acceptance (Ref: par. .15)*

.A11 The RAB may also defer acceptance of a review to perform additional procedures to overcome significant concerns regarding the review or reviewer or to request revisions to other documents such as, but not limited to, the following:

- a. Summary Review Memorandum
- b. MFCs
- c. Engagement checklists
- d. Quality control checklists

.A12 When acceptance of a review is deferred, the RAB may also recommend that the report date be revised in circumstances including, but not limited to, the following:

- a.* The report rating changed.
- b.* FFCs were added.
- c.* Substantive additional work was performed.

**.A13** If the RAB defers acceptance of a review, a letter is sent to the firm and reviewer informing the parties that the RAB has deferred acceptance of the review because of unresolved issues related to the report and that, once the issues have been resolved, the review will be sent back to a RAB for further consideration.

## **PR-C Section 420, *Corrective Actions and Implementation Plans***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains requirements and application material for technical reviewers and report acceptance bodies (RABs) when evaluating the types of corrective actions and implementation plans to recommend and require firms to complete and when evaluating the results of those actions. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*, and section 400, *General Principles and Administration Responsibilities*. Additionally, individuals involved in the administration of the program should be familiar with reviewer and firm requirements in the following PR-C sections:

- a. Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*
- b. Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*
- c. Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*
- d. Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*

#### **Effective Date**

**.02** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objectives**

**.03** The objectives of corrective actions and implementation plans are to

- a. offer education and remediation guidance to firms,
- b. provide a mechanism for RABs to monitor firms' remedial actions in response to deficiencies and findings, and
- c. assist in meeting the program's objective of serving the public interest.

### **Definitions**

**.04** A list of terms applicable to this section are defined in paragraph .11 of section 100.

## Requirements

### **Approving Due Date Extension Requests for Corrective Actions or Implementation Plans by Technical Reviewers or the CPA on Staff**

**.05** Technical reviewers and the CPA on staff should accept due date changes for corrective actions or implementation plans only if (Ref: par. .A1–.A2)

- a.* such authority has been granted by the committee,
- b.* the firm requested the due date change before the due date, and
- c.* the new due date is three months or less from the original due date.

### **Approving Outside Parties to Perform Corrective Actions or Implementation Plans**

**.06** The RAB (or its designee) should evaluate whether outside parties should be approved to perform corrective actions and implementation plans based on considerations such as, but not limited to, the following: (Ref: par. .A3)

- a.* The significance of the issues identified in the peer review resulting in corrective actions or implementation plans
- b.* The nature of the corrective actions and implementation plans
- c.* Whether the outside party's firm's most recently accepted peer review report was a pass report
- d.* The extent of the outside party's experience
- e.* If the outside party is a qualified reviewer, whether the outside party has relevant experience or any performance issues specific to the corrective actions or implementation plan

### **Determining When and What Type of Corrective Actions or Implementation Plans to Require**

**.07** The decision to require corrective actions or implementation plans should include

- a.* considering the nature and significance of the findings, deficiencies, or significant deficiencies;
- b.* evaluating whether the firm's actions taken or planned to remediate nonconforming engagements, if applicable, appear comprehensive, genuine, and feasible; and
- c.* considering any actions the reviewed firm has already taken that were reviewed by the reviewer prior to RAB evaluation.

**.08** If a finding, deficiency, or significant deficiency relates to an area where prevalent nonconformity has been identified through the AICPA Enhancing Audit Quality Initiative, then specific CPE to address the common areas of noncompliance should be required by the RAB. Either an AICPA course or an alternative course with substantially the same content as the AICPA course should be required by the RAB. (Ref: par. .A4)

**.09** In situations in which the RAB concludes a firm should be required to complete corrective actions because of deficiencies or significant deficiencies, determining the nature of corrective actions should include the following: (Ref: par. .A5)

- a. Considering the potential corrective actions in exhibit B, “Suggested Corrective Actions: Engagement Reviews,” and exhibit D, “Suggested Corrective Actions: System Reviews,” based on the applicable facts and circumstances
- b. For repeat findings, deficiencies, or significant deficiencies, evaluating whether the firm made a genuine effort to correct the prior issue and considering whether a more rigorous or targeted requirement is appropriate (Ref: par. .A6)
- c. For system reviews,
  - i. considering the systemic causes, pattern, pervasiveness, and relative importance to the system of quality control and whether the firm’s actions taken or planned to remediate the firm’s system of quality control appear comprehensive, genuine, and feasible; and
  - ii. considering prescribing actions that give the firm an opportunity to demonstrate the effectiveness of changes implemented or improvements made (Ref: par. .A7)
- d. For engagement reviews, considering whether the reviewed firm has a sufficient understanding of relevant accounting or reporting matters (or both)

**.10** In situations in which the RAB concludes a firm should be required to complete an implementation plan because of findings, determining the nature of the implementation plan should include the following:

- a. Assigning only the allowable implementation plans in exhibit A, “Allowable Implementation Plans: Engagement Reviews,” or exhibit C, “Allowable Implementation Plans: System Reviews,” based on the applicable facts and circumstances
- b. For repeat findings, evaluating whether the firm made a genuine effort to correct the prior issue and considering whether a more rigorous or targeted implementation plan is appropriate (Ref: par. .A6)
- c. For system reviews, considering the systemic causes, pattern, pervasiveness, and relative importance of findings to the system of quality control and whether the firm’s actions taken or planned to remediate the firm’s system of quality control appear comprehensive, genuine, and feasible
- d. For engagement reviews, considering whether the reviewed firm has a sufficient understanding of relevant accounting or reporting matters (or both)

**.11** If the RAB believes more extensive actions other than the allowable implementation plans in exhibits C and D are necessary (such as submitting documents to an outside party), the RAB needs to consider whether the findings should have been elevated to deficiencies in the report.

### **Evaluating the Results of Corrective Actions and Implementation Plans**

**.12** The RAB’s (and technical reviewer’s) evaluation of the results of corrective actions and implementation plans should include considering the following: (Ref: par. .A8)

- a. Whether such actions have been completed as required
- b. Whether the results indicate additional remediation is in the firm's or the public's best interest
- c. If the actions have not been completed as required, whether this is a failure to cooperate that warrants referral to a board hearing panel for potential termination from the program

**.13** The RAB's (and technical reviewer's) evaluation of whether the firm should be required to complete additional actions includes the following: (Ref: par. .A9)

- a. The amount of improvements made by the firm
- b. Whether the firm can continue to make improvements on its own
- c. The reason that improvement was not made as expected
- d. The significance of current issues
- e. The nature and size of the firm's practice, including the number of engagements and personnel and the types of engagements performed
- f. Whether actions were appropriate to remediate findings, deficiencies, or significant deficiencies
- g. Whether the firm had sufficient time to remediate findings, deficiencies, or significant deficiencies

#### **Accepting Certain Corrective Actions and Implementation Plans by the CPA on Staff or Technical Reviewer**

**.14** The CPA on staff or technical reviewers should accept corrective actions or implementation plans on the committee's behalf only if such authority has been granted and there are clearly identifiable actions or procedures requested of the firm. (Ref: par. .A10)

#### **When Corrective Actions or Implementation Plans Are Replaced, Waived, or Extended**

**.15** For requests to waive corrective actions or implementation plans, the RAB should first consider replacement options. Corrective actions or implementation plans should not be waived solely because the firm cannot meet the due date or has an upcoming review. (Ref: par. .A11–.A13)

#### **Application and Other Explanatory Material**

##### **Approving Due Date Extension Requests for Corrective Actions or Implementation Plans by Technical Reviewers or the CPA on Staff (Ref: par. .05)**

**.A1** The committee, based on the nature of corrective actions or implementation plans and the background and experience of technical reviewers and the CPA on staff, may authorize those individuals to approve due date changes of corrective actions or implementation plans.

.A2 Technical reviewers and the CPA on staff may submit requests meeting the criteria in paragraph .05 to the RAB for approval based on professional skepticism, taking into consideration experience from the technical review process and the firm's history.

**Approving Outside Parties to Perform Corrective Actions or Implementation Plans (Ref: par. .06)**

.A3 The committee, based on the nature of corrective actions or implementation plans and the background and experience of technical reviewers and the CPA on staff, may authorize those individuals to approve outside parties to perform corrective actions and implementation plans.

**Determining When and What Type of Corrective Actions or Implementation Plans to Require (Ref: par. .07)**

.A4 The AICPA courses located on the Peer Review page of the AICPA website provide the content intended to meet this requirement.

.A5 The potential corrective actions in exhibits B and D may be tailored to address deficiencies or significant deficiencies.

.A6 For repeat findings, deficiencies, and significant deficiencies, the RAB may determine that more than 8 hours of CPE is necessary and may require 24 hours, change the nature of the required courses, or require the firm to complete CPE and hire an outside party to review its internal monitoring or inspection report.

.A7 Requiring a firm to take CPE is a common required corrective action; however, the submission of CPE certificates alone does not necessarily give a firm an opportunity to demonstrate the effectiveness of changes implemented or improvements that may reduce the risk the firm will have repeat deficiencies or significant deficiencies. Additionally, for firms with a second consecutive non-pass report (but not a third), the RAB evaluates whether to refer the firm for potential termination based on the results of corrective actions. In such a situation, it may be appropriate to require the firm to take specified types and amounts of CPE and subsequently engage a third party to perform a pre-issuance or post-issuance review of a specific engagement to demonstrate improvement.

**Evaluating the Results of Corrective Actions and Implementation Plans (Ref: par. .12 and .13)**

.A8 The RAB and administering entity (AE) may recommend to a firm that it request a change in the year-end of its subsequent peer review in situations including, but not limited to, the following:

- a. Significant portions of the firm's practice that would be subject to the firm's subsequent peer review without a year-end change were reviewed by an outside party as part of corrective actions or implementation plans.



- b. The review being evaluated is significantly overdue and there is concern that the firm would not have sufficient time to remediate issues on engagements issued that would be subject to the firm's subsequent peer review without a year-end change.
- c. Due to the nature of the firm's practice, a significant portion of the firm's engagements are not completed and available for review based on the firm's current peer review year-end.

**.A9** The results from completed actions may provide more current information to the RAB regarding additional actions that may be more effective in correcting the issues identified in the firm's review.

**Accepting Certain Corrective Actions and Implementation Plans by the CPA on Staff or Technical Reviewer (Ref: par. .14)**

**.A10** Identifiable actions or procedures that may be accepted by the CPA on staff or technical reviewers include, but are not limited to, the following:

- a. Submit proof of CPE taken
- b. Submit proof of purchase of third-party-provided materials
- c. Submit proof of licensure
- d. Submit proof of a specific correction to a nonconforming engagement
- e. Submit a report by an outside party approved by the RAB on the results of actions specified by the RAB where the outside party reports the firm's actions were favorable and additional corrective actions or implementation plans are not considered necessary

**When Corrective Actions or Implementation Plans Are Replaced, Waived, or Extended (Ref: par. .15)**

**.A11** The RAB may request corrective actions or implementation plans that are industry or engagement-type specific but address a firm's noncompliance with its system of quality control policies and procedures. If the firm represents it will no longer perform engagements in a specific industry, the RAB may replace the original request with a new corrective action or implementation plan. For example, if the RAB required a firm to have a pre-issuance review of a for-profit entity subject to the U.S. Department of Housing and Urban Development's (HUD's) uniform financial reporting standards but the firm will no longer perform such engagements, the RAB may require the firm to obtain a pre-issuance review of a single audit.

**.A12** The RAB may permit a reviewed firm to undergo an accelerated peer review in lieu of completing corrective actions or implementation plans if the following apply:

- a. The firm has had sufficient opportunity to implement remedial actions prior to the anticipated commencement date of the accelerated review.
- b. The reviewed firm elects, in writing, to have an accelerated review.
- c. The corrective action or implementation plan is

- i. an outside party's post-issuance review of certain types or portions of engagements,
- ii. an outside party's review of the firm's remedial actions outlined in its letter of response or the appropriateness of alternative actions, or
- iii. an outside party's review of the firm's internal inspection or monitoring report.

**.A13** Situations in which it may be appropriate to waive corrective actions or implementation plans include, but are not limited to, the following:

- a. The firm represents it is no longer performing the types of engagements that were the source of the findings or deficiencies, and the systemic cause did not extend to other aspects of the firm's practice.
- b. The firm has given up its auditing and accounting practice and represents it has no plans to perform audit or accounting engagements in the future.
- c. A partner leaves the firm, and that partner was the sole source of the engagement type or systemic findings or deficiencies.
- d. The firm has been sold and is no longer practicing and is not licensed to practice. This does not include mergers or situations in which a firm is no longer in existence and the partners have taken their respective clients to another firm.

## ***Exhibit A — Allowable Implementation Plans: Engagement Reviews***

.A14

<b><u>Finding</u></b>	<b><u>Allowable Implementation Plan</u></b>
Engagements indicate the following: <ul style="list-style-type: none"> <li>• Repeat findings</li> </ul>	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE.</li> </ul>
<ul style="list-style-type: none"> <li>• Failure to possess applicable firm licenses</li> </ul>	<ul style="list-style-type: none"> <li>• Require the firm to submit proof of its valid firm licenses.</li> </ul>

## ***Exhibit B — Suggested Corrective Actions: Engagement Reviews***

.A15

<b><u>Deficiency</u></b>	<b><u>Suggested Actions to Be Performed as Soon as Reasonably Possible</u></b>
Deficiency	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE.</li> <li>• Require the firm to hire an outside party approved by the RAB to perform a pre-issuance or post-issuance review of certain types or portions of engagements.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's remediation of nonconforming engagements.</li> <li>• Require the firm to engage an outside party approved by the RAB to review the firm's completion of its intended remedial actions as outlined in its letter of response or to evaluate the appropriateness of alternative actions. Though not required, this is commonly performed by the review captain.</li> <li>• Require the relevant members of the firm to submit proof of their valid individual licenses.</li> </ul>

## ***Exhibit C — Allowable Implementation Plans: System Reviews***

.A16

<b><u>Finding</u></b>	<b><u>Allowable Implementation Plan</u></b>
Nonconforming engagements and <ul style="list-style-type: none"> <li>• initial findings on a must-select industry or</li> <li>• repeat findings for any industry</li> </ul>	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE.</li> <li>• Require the firm to hire an outside party approved by the RAB to perform a pre-issuance or post-issuance review of certain types or portions of engagements.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's remediation of a nonconforming engagements.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions outlined in its response on the finding for further consideration (FFC) form or to evaluate the appropriateness of alternative actions.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report.</li> </ul>
Engagements indicate repeat findings	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report.</li> </ul>
Failure to possess applicable firm licenses	<ul style="list-style-type: none"> <li>• Require the firm to submit proof of its valid firm licenses.</li> </ul>

***Exhibit D — Suggested Corrective Actions: System Reviews*****.A17**

<b><u>Deficiency or Significant Deficiency</u></b>	<b><u>Suggested Actions to Be Performed as Soon as Reasonably Possible</u></b>
Deficiency or significant deficiency related to engagement performance	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE.</li> <li>• Allow firm members responsible for the applicable type of nonconforming engagements to pass the related AICPA advanced certificate exam, if applicable, in lieu of CPE. This option is applicable only for firms that have nonconforming engagements in certain industries that were identified in the peer review and for which a related AICPA advanced certificate exists.</li> <li>• Require the firm to hire an outside party approved by the RAB to perform a pre-issuance or post-issuance review of certain types or portions of engagements.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's remediation of nonconforming engagements.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions as outlined in its letter of response or to evaluate the appropriateness of alternative actions. Though not required, this is commonly performed by the team captain of the peer review.</li> <li>• Require the firm to join an AICPA audit quality center applicable to the type of nonconforming engagements.</li> </ul>
Deficiency or significant deficiency related to design of or noncompliance with another element of the quality control system	<ul style="list-style-type: none"> <li>• Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report.</li> <li>• Require the firm to hire an outside party approved by the RAB to perform a pre-issuance review of certain types or portions of engagements.</li> <li>• Require the relevant members of the firm to submit proof of their valid individual licenses.</li> </ul>

## ***Appendix A — Guidance for Outside Parties Engaged to Assist Firms in Completing Corrective Actions and Implementation Plans***

**.A18** This appendix contains guidance for outside parties engaged to assist firms in completing corrective actions or implementation plans required as a condition of acceptance of the firm's peer review.

### **Objectives**

**.01** The objectives of the outside party assisting a firm in the completion of corrective actions or implementation plans are to

- a. objectively determine whether the firm took one or more actions the firm represented it would perform in its letter of response or response to findings for further consideration (FFCs),
- b. evaluate the reviewed firm's compliance with the corrective actions or implementation plan, and
- c. issue a letter that describes the procedures performed and the conclusions reached as a result of those procedures, to enable the report acceptance body (RAB) to conclude on the adequacy of the reviewed firm's corrective actions or implementation plans.

### **Planning**

**.02** The outside party should first gain an understanding of the corrective actions or implementation plans agreed to by the firm and the procedures that need to be performed by obtaining and reading

- a. the acceptance letter describing the corrective actions or implementation plans required by the RAB;
- b. the firm's most recent peer review report;
- c. the firm's letter of response, if applicable; and
- d. the FFC forms, if applicable.

**.03** The outside party may confirm the appropriateness of the procedures to be performed by contacting the administering entity's (AE's) peer review committee, its RAB, or the technical reviewer. If unsure who to contact, the outside party may contact the AICPA.

### **Procedures**

**.04** The outside party should perform procedures outlined in the acceptance letter while considering the elements required to be reported, which are outlined in the subsequent section.

**.05** The outside party should discuss the procedures performed and conclusions reached as a result of those procedures with the reviewed firm. During those discussions, the outside party should ask whether the firm plans to implement further corrective actions to address any

deficiencies or significant deficiencies or take additional steps to address any findings noted during the outside party's procedures because they will likely be mentioned in the outside party's letter or report.

Reporting

**.06** The outside party should draft a letter or report to the RAB describing the procedures performed and conclusions reached. The letter or report should

- a. be issued on the letterhead of the outside party's firm,
- b. addressed to the AE's RAB with a copy to the reviewed firm, and
- c. include the following elements:
  - i. A description of the corrective actions or implementation plans required by the RAB
  - ii. A description of the representations made by the reviewed firm regarding the changes made by the firm since its most recent peer review
  - iii. A description of the procedures performed by the outside party
  - iv. A summary of the results of the outside party's procedures, including a description of any representations made by the reviewed firm regarding further planned actions and the outside party's comments on the appropriateness of those actions
  - v. A statement that the letter or report is intended for limited distribution to the RAB and the reviewed firm and is not intended as a substitute or replacement for the peer review documents issued on the firm's peer review
  - vi. Information enabling the RAB to evaluate whether the firm has improved
  - vii. For system reviews, recommendations of additional actions if the outside party believes the results reveal continued weaknesses in the reviewed firm's system of quality control

Illustrative Letters

**.07** The following letters are for illustrative purposes only. It is recommended, but not required, that the outside party adopt the form of these letters and tailor them to describe the conclusions reached based on the specific procedures performed.

**SAMPLE LETTER ON AN OUTSIDE PARTY'S REVIEW OF A FIRM'S REMEDIAL  
ACTIONS — CORRECTIVE ACTIONS**

*[Outside Party's Firm Letterhead]*

May 15, 20XX

*[Name and Address of the Report Acceptance Body]*

Dear Committee Members:

This letter is written to assist *[reviewed firm's name]* in complying with certain actions the firm voluntarily agreed to take in connection with the *[name of the report acceptance body]*'s consideration of acceptance of its 20XX peer review report and response thereto.

The *[name of the administering entity's peer review committee or its report acceptance body]* accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to:

- a. Review the planning for the firm's 20XX inspection program in advance.
- b. Review the results (with emphasis on those items noted in the 20XX peer review) and the corrective actions taken on the deficiencies or significant deficiencies noted.
- c. Provide a written communication on the firm's inspection to the Committee by September 30, 20XX.

Prior to the firm performing its 20XX inspection, I performed the following procedures:

- a. Reviewed a copy of the firm's 20XX peer review report, finding for further consideration (FFC) forms (if applicable), the firm's letter of response, and the acceptance letter describing the required corrective actions.
- b. Reviewed the firm's inspection planning documentation.

On April 19<sup>th</sup>, 20XX, after the completion of its 20XX inspection, I performed the following procedures:

- a. Discussed the corrective actions described in its letter of response with the firm to determine if the actions have been fully implemented.
- b. Reviewed the firm's inspection report and underlying documentation of its performance, including the engagement review checklists prepared during the inspection.
- c. Reviewed the working papers of selected engagements included in the inspection and any changes in the firm's quality control materials to evaluate the effectiveness of the inspection and the corrective actions implemented by the firm as a result of its 20XX peer review.
- d. Discussed the inspection results and corrective action plan with the firm and evaluated the feasibility of the firm achieving its plan.



Discussed in the following sections are the results of the procedures I performed and a description of the firm's representations regarding planned corrective actions.

### **Procedures on the Audit of an Employee Benefit Plan Audit**

The firm performed an audit of a defined benefit pension plan subject to ERISA requirements. The firm failed to test participant data and did not obtain a representation letter from its client or the plan administrator. The firm subsequently obtained the missing representation letter and performed the necessary tests. I reviewed this documentation before the firm's peer review documents were presented to the Committee. The firm's letter of response indicated it would obtain an industry-specific audit program and update its library to include AICPA Audit and Accounting Guide *Employee Benefit Plans*.

### **Results of the Firm's Remedial Actions Related to the Employee Benefit Plan Audit**

The firm did not obtain a copy of the AICPA Audit and Accounting Guide and my review of a recently completed employee benefit plan audit subject to ERISA showed an industry-specific audit program was not obtained and used by the firm on the audit. In addition, some key confirmations relating to investment balances were not obtained and alternative procedures were not performed. The partner with responsibility for the engagement indicated that the firm obtained a large new client that took up a lot of time, and as a result, the staff rushed through the ERISA audit using the prior year's working papers.

### **Planned Corrective Actions Related to Employee Benefit Plan Audits**

The firm represented that the AICPA Audit and Accounting Guide and industry-specific practice aids that include model audit programs have been ordered. The firm has subsequently obtained confirmations and/or performed alternative procedures to substantiate the investment balances. I reviewed the additional procedures performed and they are appropriate. In addition, the firm represented that it plans to send its audit staff responsible for conducting employee benefit plan audits to 8 hours of CPE audits of employee benefit plans.

### **Performance of Audits Subject to Government Auditing Standards and the Single Audit Act**

The firm performed several audits subject to the Single Audit Act. The firm failed to issue the required reports on internal controls and compliance with laws and regulations, did not document its consideration and testing of the internal control structure, and did not perform the necessary procedures to test compliance with laws and regulations. In addition, the partner responsible for the engagement was not in compliance with the Yellow Book CPE requirement. The firm performed the omitted audit procedures and issued the missing reports which I reviewed before the firm's peer review documents were presented to the Committee. The firm's letter of response stated that the partner would take the necessary CPE.

**Results of the Firm's Remedial Actions Related to Audits Subject to Government Auditing Standards and the Single Audit Act**

My review of a single audit performed subsequent to the firm's peer review noted that all required reports were issued on the engagement and that the owner participated in the necessary CPE. However, I was unable to determine the extent of the testing for compliance with laws and regulations because of significant documentation deficiencies. In addition, documentation deficiencies continued to exist with respect to considering and testing the entity's internal control structure and testing for compliance with the requirements applicable to the federal financial assistance programs.

**Planned Corrective Actions Related to Audits Subject to Government Auditing Standards and the Single Audit Act**

The firm represented that it plans to conduct a training session for partners and staff during the next month on documentation of audit procedures performed. In addition, the firm represented that it will instruct partners to focus on documentation during their review process and will amend the partner review checklist to add this focus.

**Reports on Compiled Interim Financial Statements**

The deficiency related to the firm's failure to issue accountants' compilation reports on monthly computer-generated financial statements. The firm's letter of response stated that the firm would revise its quality control policies and procedures to require the issuance of compilation reports with the accompanying financial statements.

**Results of the Remedial Actions Related to Compiled Interim Financial Statements**

The firm adopted a policy requiring the partners to ensure that an accountant's report accompanies compiled financial statements when those statements are issued to the client. The inspection results indicated that compilation reports were issued with monthly compiled financial statements. However, some of the reports did not disclose that the financial statements were presented using a special purpose framework (cash basis). This reporting error occurred because the firm obtained a copy of the standard compilation report from the reviewer and used it on all of its compiled financial statements. The firm was not familiar with cash basis reporting on Statements on Standards for Accounting and Review Services (SSARS) engagements and did not have any third-party reference material. In addition, the firm's accounting personnel had not taken any recent CPE courses relating to SSARS engagements.

**Planned Corrective Actions Related to Compiled Interim Financial Statements**

The firm implemented a reviewer checklist to provide assurance that the proper type of compilation report will be issued and its policies and procedures were revised to require completion of this checklist. In addition, the firm represented that all personnel involved in

preparing and/or reviewing compilation engagements will take 8 hours of CPE on SSARS engagements within the next month. To assess the effectiveness of using the new checklist, the firm represented that it plans to review a sample of compilation reports issued subsequent to the implementation of the checklist.

### **Summary**

The firm's inspection appears to have been comprehensive, suitably designed, and adequately documented, and the results appear to have been effectively communicated to professional personnel. However, the firm's inspection failed to identify the issues previously discussed. As a result, I believe the Committee should further monitor the firm's corrective actions because the results revealed that the firm has failed to adequately implement the corrective actions described in its letter of response. I recommend that the Committee consider requiring the firm to hire an outside third party sufficiently experienced in the industries in which the firm's clients operate to perform a pre-issuance review of the firm's employee benefit plan audits and those subject to *Government Auditing Standards* and the Single Audit Act.

This letter is intended solely for the information and use of the [*name of the administering entity's peer review committee or its report acceptance body*] and the owners of [*reviewed firm's name*], and is not intended as a substitute or replacement for the peer review documents issued on the firm's 20XX peer review.

Sincerely,

---

[*Outside Party's Signature*]

cc: [*Reviewed Firm's Name*]

**SAMPLE LETTER ON AN OUTSIDE PARTY’S REVIEW OF A SUBSEQUENT  
ENGAGEMENT — CORRECTIVE ACTIONS**

*[Outside Party’s Firm Letterhead]*

October 6, 20XX

*[Name and Address of the Report Acceptance Body]*

Dear Committee Members:

This letter is written to assist *[reviewed firm’s name]* in complying with certain actions the firm voluntarily agreed to take in connection with the *[name of the report acceptance body]*’s consideration of acceptance of its 20XX peer review report and response thereto.

The *[name of the administering entity’s peer review committee or its report acceptance body]* accepted the firm’s 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to review the report, financial statements, and working papers of an audit engagement issued subsequent to the firm’s peer review and communicate to the Committee in writing on the results of that review by July 31, 20XX.

I performed the following procedures:

- a. Reviewed a copy of the firm’s 20XX peer review report, Finding for Further Consideration (FFC) forms (if applicable), and the firm’s letter of response, and the acceptance letter describing the required corrective actions.
- b. Reviewed the report, financial statements, and working papers for a not-for-profit audit engagement issued subsequent to the peer review to determine whether the engagement was performed in accordance with professional standards in all material respects. I documented my review using the AICPA “Not-for-Profit Audit Engagement Checklist.”
- c. Discussed with the firm the review results and the corrective action plan and evaluated the feasibility of the firm achieving its plan.

While performing the procedures, I found some minor incomplete disclosures in the areas of promises to give and collections. The firm represented that it will conduct a “refresher” training session on disclosures for all owners and professional staff and also will instruct owners to focus on disclosures during their review process.

Because only minor matters were found on the engagement I reviewed, I believe no further monitoring of the firm by the *[name of the administering entity’s peer review committee or its report acceptance body]* is necessary at this time.

This letter is intended solely for the information and use of the *[name of the administering entity’s peer review committee or its report acceptance body]* and the owners of *[reviewed*

*firm's name*], and is not intended as a substitute or replacement for the peer review documents issued on the firm's 20XX peer review.

Sincerely, \_\_\_\_\_

[*Outside Party's Signature*]

cc: [*Reviewed Firm's Name*]

## **PR-C Section 430, *Reviewer Monitoring and Performance***

### **Introduction**

#### **Scope of This Section**

**.01** This section contains requirements and application material for the administering entity (AE), peer review committee (committee), report acceptance body (RAB), and technical reviewer regarding monitoring reviewer performance. For purposes of this section, it is assumed that the committee has delegated reviewer monitoring responsibilities to the RAB (or other designee) whose members may be, but are not required to be, members of the committee. The requirements and guidance in this section supplement the requirements and guidance in section 100, *Concepts Common to All Peer Reviews*, and section 400, *General Principles and Administration Responsibilities*. Additionally, individuals involved in the administration of the program should be familiar with reviewer and firm requirements in the following PR-C sections:

- a. Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*
- b. Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*
- c. Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*
- d. Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*

#### **Effective Date**

**.02** The effective date for this standard is for peer reviews commencing on or after May 1, 2022.

### **Objectives**

**.03** The objectives of reviewer performance feedback are to

- a. aid reviewers in their performance by documenting specific areas of improvement and
- b. help the AE and AICPA staff in monitoring the performance of the reviewer, including whether there is a pattern of reviewer performance findings.

### **Definitions**

**.04** A list of terms applicable to this section are defined in paragraph .11 of section 100.

## Requirements

### Reviewer Performance

**.05** Reviewer performance findings and performance deficiencies should (Ref: par. .A1–.A5)

- a.* be documented on a reviewer performance feedback form.
- b.* be substantiated by peer review guidance.
- c.* include sufficient explanation to ensure the reviewer understands the feedback.
- d.* be signed and dated by the RAB, the committee, a committee member, or the technical reviewer.
- e.* be approved by the RAB in conjunction with acceptance of the underlying peer review.
- f.* be issued to the reviewer no later than the date the reviewer is notified that the underlying peer review was accepted.
- g.* be issued regardless of whether the reviewer cooperated in revising documents or responding to questions and regardless of the status of the reviewer, including reviewers currently suspended or subjected to other corrective actions, suspensions, or limited restrictions.

### *Performance Deficiency Letters*

**.06** Performance deficiency letters (PDLs) are issued to improve reviewer performance and assist the committee in ensuring reviewers are fulfilling all reviewer responsibilities in the performance of reviews. PDLs should be issued when there is (Ref: par. .A6–.A8)

- a.* a pattern of reviewer performance findings by a reviewer or
- b.* more than one reviewer performance deficiency on one review (regardless of whether a pattern is present).

**.07** A PDL should do the following: (Ref: par. .A9)

- a.* State that improvements are needed in the performance of the reviewer.
- b.* Include an explanation of the performance deficiencies.
- c.* Indicate that the individual must agree to comply with one or more corrective actions or restrictions in order to continue performing reviews, such as, but not limited to, the following:
  - i.* Oversight (at the reviewer's expense) until performance improves
  - ii.* Consulting with the AE to discuss the planning and performance of the next review until performance improves
  - iii.* Submitting all reports and appropriate documentation on all outstanding peer reviews before scheduling or performing another review
  - iv.* Having pre-issuance reviews of the report and peer review documentation on future peer reviews by an individual acceptable to the RAB (at the reviewer's expense)

- v. Submitting evidence of completion of specified types of and amounts of CPE or training, or passing the related AICPA advanced certificate exam
  - vi. Removing or revising certain peer reviewer résumé items until appropriate proof of experience and knowledge have been provided to the satisfaction of the RAB
- d. Specify whether any corrective actions or restrictions are specific to the individual's performance as a captain or team member, if applicable.
  - e. Indicate that other AEs will impose the preceding corrective actions or restrictions on the reviewer.
  - f. Indicate that the committee may request that the board remove the individual's name from the list of qualified reviewers if improvements are not noted in the performance of the reviewer on subsequent reviews, or the reviewer refuses to cooperate, such as by failing to return a signed acknowledgment copy of the letter within 30 days from the date of the letter.
  - g. Indicate that the reviewer will be suspended from scheduling reviews and performing reviews that are scheduled but not commenced by all AEs if the reviewer has not acknowledged the letter within 30 days from the date of the letter.
  - h. Give the reviewer an opportunity to appeal the decision before a hearing panel of the board, via telephone conference or in writing. (Ref: par. .A9)
  - i. Indicate that a request for appeal must be made within 30 days of receipt of the letter and that the actions or restrictions outlined in the letter will remain in effect for all reviews that the reviewer commences, pending the appeal results.
  - j. Be copied and sent to the managing partner of the reviewer's firm if the reviewer is not a sole practitioner and be sent to all AEs for which the reviewer is scheduled to perform reviews or has performed a review in the past year.
- .08** The entity issuing a PDL should document its communication (either through discussion or email) with the reviewer to ensure the reviewer is knowledgeable about the evidence supporting the PDL. (Ref: par. .A10)
- .09** Corrective actions or restrictions included in a PDL should be adhered to by all AEs and applied to the individual's participation in the performance of any peer review unless the condition is specific to the individual's service as a team captain, review captain, or team member. Corrective actions or restrictions included in a PDL should remain in effect for reviews that the reviewer commences after acknowledging receipt of the PDL until either
- a. the corrective actions and restrictions are withdrawn or
  - b. the reviewer has appealed the PDL and the hearing panel determines that the corrective actions or restrictions should be removed or revised.

*Withdrawal of Actions or Restrictions in a PDL*

**.10** Only the entity that issued the PDL should withdraw corrective actions or restrictions included in the PDL. The corrective actions or restrictions should be withdrawn once there is



evidence supporting fulfillment of any obligations placed upon the reviewer or supporting why the action or restriction is no longer required. If no improvement or a lack of cooperation is evident, the reviewer should be referred to the board for reviewer removal (see paragraphs .13–.17).

#### *Reviewer Removal*

**.11** The committee should issue a letter to the board recommending that a reviewer be removed from the list of qualified reviewers if the reviewer (Ref: par. .A11–.A14)

- a.* refuses to cooperate with the committee or board (for example, by not acknowledging or appealing a PDL within 30 days).
- b.* fails to correct performance deficiencies or findings after a corrective action has been required and the reviewer has had sufficient time and opportunity to correct the deficiencies or findings.
- c.* has committed an egregious act in the performance of a peer review. (See paragraph .A44 of section 200, *General Principles and Responsibilities for Reviewers*.)

**.12** Prior to referring a reviewer to the board for potential removal from the list of qualified reviewers, the AE should ensure the reviewer is fully knowledgeable about the evidence supporting the referral to the board. Such communication (either through discussion or email) should be documented. One objective of this communication is to determine if there is a disagreement between the reviewer and AE. If there is a disagreement, the committee should follow the guidance in section 400, appendix B, “Disagreements.”

**.13** Referrals to the board to request removal of an individual from the list of qualified reviewers should be supported by an affirmative vote by a majority of the committee and include all supporting documentation. (Ref: par. .A15)

**.14** The letter recommending that a reviewer be removed from the list of qualified reviewers should be sent by a delivery method providing proof of delivery (including electronic means) and should indicate the following:

- a.* That the reviewer refuses to cooperate with the committee or board, failed to correct performance deficiencies or findings after a corrective action was imposed, failed to comply with peer review standards and guidance such that reviewer performance deficiencies were noted, or committed egregious acts in the performance of a review
- b.* That the board is requested to consider whether the reviewer should be prohibited from performing reviews or whether some other action should be taken
- c.* That the board is also requested to suspend the reviewer’s ability to schedule future reviews until this matter is resolved

**.15** The request to remove the reviewer from the list of qualified reviewers should include all supporting documentation. (Ref: par. .A15)

#### *Considerations When a Reviewer Is Issued a PDL*

**.16** Because reviews will be in different stages of completion when a reviewer is issued a PDL, the AE should evaluate the situation and ensure appropriate actions are taken, if any, due to the PDL. (Ref.: par. .A16)

*Considerations When a Reviewer Is Removed From the List of Qualified Reviewers*

**.17** Because reviews performed by a reviewer will be in different stages of completion when the board removes the reviewer from the list of qualified reviewers, the AE should evaluate the situation and ensure appropriate actions are taken, if any, due to reviewer removal. (Ref.: par. .A17)

**Performing in a Timely and Professional Manner**

**.18** If a reviewer fails to timely and professionally submit peer review documentation (see paragraphs .A39–.A41 of section 200), the AE should suspend the reviewer from scheduling peer reviews within its jurisdiction. Prior to starting the suspension process, the AE should first confirm that it is the reviewer, not the reviewed firm that is failing to perform in a timely and professional manner. If there is a disagreement between the reviewer and reviewed firm, procedures in appendix B of section 400 are followed to resolve the disagreement. (Ref: par. .A18–.A19)

**.19** Reviewer suspensions should not preclude the reviewer from

- a. performing already approved and scheduled reviews;
- b. receiving reviewer performance feedback or other communications, if warranted; or
- c. being suspended for failing to timely and professionally submit peer review documentation related to another review.

**Reviewer Qualifications**

**.20** The AE should inform AICPA staff if the AE becomes aware that a reviewer no longer possesses one or more qualifications of a reviewer. (Ref: par. .A20–.A21)

**.21** If the AE contacts a firm because its reviewer no longer meets qualifications and the reviewer has not contacted the firm (or team captain) to inform the firm that the reviewer will not be able to perform or continue to perform the firm’s peer review, the AE should not provide details or explanation of the reason to the firm. It should be at the reviewer’s discretion to discuss details with the firm if the reviewer chooses to do so. (Ref: par. .A22–.A23)

*Considerations When a Reviewer Is Ineligible to Schedule or Perform Reviews*

**.22** Because reviews performed by a reviewer will be in different stages of completion when the reviewer is determined to be ineligible to schedule or perform reviews, the AE should consider the situation and ensure appropriate actions are taken, if any, due to reviewer ineligibility. (Ref: par. .A24)

**Allegations or Investigations**

**.23** The AE and RAB should consider and investigate, as deemed necessary, whether any actions (such as oversight) on the reviewer or reviewing firm are appropriate to overcome any concerns due to the allegations or investigations. (Ref: par. .A25)

### **Limitations or Restrictions**

**.24** The AE should comply with any actions placed on reviewers and firms due to limitations or restrictions. (Ref: par. .A26–.A29)

**.25** Because reviews performed by a reviewer will be in different stages of completion when a reviewer or reviewing firm become restricted or limited, the AE should evaluate the situation and ensure appropriate actions are taken, if any, due to limitations or restrictions. (Ref: par. .A30)

### **Reviewers That Consider Withdrawing From a Peer Review After the Commencement of the Review**

**.26** When a reviewer withdraws from a peer review after the review has commenced (based on the definition of *commencement* in section 100), the AE should evaluate whether the situation is a matter of firm noncooperation or reviewer performance and take appropriate action. (Ref: par. .A31–.A32)

## **Application and Other Explanatory Material**

### **Reviewer Performance (Ref: par. .05)**

**.A1** Recommendations for reviewer performance feedback may be made by the technical reviewer, the board, or staff via the technical review process or other means such as oversight.

**.A2** Examples of reviewer performance findings that may be documented on a reviewer performance feedback form include, but are not limited to, the following:

- a.* Related to planning, the reviewer did not
  - i.* obtain team member approval timely.
  - ii.* obtain a sufficient understanding of the firm’s accounting and auditing practice or system of quality control, resulting in the need to perform additional work after the working papers were submitted to the AE.
  - iii.* address significant differences between the background information provided to the AE during scheduling and the information that the firm provided to the reviewer that would have affected peer review planning or procedures.
  - iv.* adequately document a comprehensive risk assessment for the system review and additional clarification was necessary after working papers were submitted to the AE.
- b.* Related to engagement selection and review, the reviewer
  - i.* did not select a sufficient or appropriate scope of engagements for review; this includes selecting too many engagements on an engagement review.

- ii. did not properly select the “surprise” engagement.
  - iii. did not provide sufficient documentation of reasoning for the surprise selection.
  - iv. identified all significant issues in an engagement but did not appropriately conclude on whether an engagement was nonconforming prior to technical review, oversight, or RAB consideration.
- c. Related to the assessment and disposition of matters, the reviewer did not
  - i. appropriately identify matters, findings, deficiencies, or significant deficiencies that would rise to the level of performance deficiencies.
  - ii. appropriately dispose of matters noted on the review.
  - iii. properly consider or document the need to expand scope to other engagements or functional areas.
  - iv. appropriately aggregate or evaluate matters noted on the review.
- d. Related to the completion of findings for further consideration (FFCs), the reviewer did not
  - i. write findings systemically in a system review.
  - ii. sufficiently complete or write FFCs or evaluate the firm’s response.
  - iii. properly identify a repeat finding.
- e. Related to reporting, the reviewer did not
  - i. provide sufficient working papers or documentation to support the report rating.
  - ii. present the report in standard form in accordance with peer review guidance, or significant revisions to the report were needed.
  - iii. properly review and evaluate the reviewed firm’s letter of response prior to its submission to the AE.
  - iv. properly identify a repeat deficiency.
- f. Related to completion and submission of working papers, significant revisions to the working papers were needed or the reviewer did not
  - i. comprehensively complete peer review documentation.
  - ii. properly report engagement statistics.
  - iii. properly discuss consideration of a nonconforming engagement including consideration of the reviewed firm’s response.
  - iv. use appropriate practice aids that follow current templates, materials, and checklists.

**.A3** Examples of reviewer performance deficiencies that may be documented on a reviewer performance feedback form include, but are not limited to, the following:

- a. Related to engagement selection and review, the reviewer did not
  - i. appropriately identify a nonconforming engagement prior to technical review, oversight, or RAB consideration.
  - ii. demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight, or RAB consideration.
- b. Related to assessment and disposition of matters, the reviewer did not appropriately aggregate or evaluate matters noted on the review such that the RAB determined
  - i. a deficiency was present but the reviewer did not elevate the matter beyond a matter for further consideration (MFC) or

- ii. a significant deficiency (or a *fail* report rating on an engagement review) was present but the reviewer did not elevate the matter beyond an FFC.

**.A4** Less critical reviewer performance matters may be provided informally, such as in an email or a call from the technical reviewer; however, the aggregation of less critical performance matters may warrant the issuance of a reviewer performance feedback form. Less critical matters include, but are not limited to,

- a. a checklist was not signed by the team captain,
- b. a reviewer's handwriting was difficult to read, or
- c. the peer review documents needed one minor revision.

**.A5** Team member feedback may affect the team captain. For example, if the team member receiving performance feedback did not identify the matters on the checklist that would have informed the team captain to consider the issues, feedback for the team captain is not necessary. However, if the team member identified significant "no" answers on the checklists but did not properly conclude on the engagement, and the team captain did not question the conclusion, reviewer performance feedback for both individuals would be appropriate.

*Performance Deficiency Letters (Ref: par. .06-.08)*

**.A6** If a reviewer's performance on a review is considered egregious, a PDL may be issued or the reviewer may be referred to the board for potential removal from the list of qualified reviewers. (See "[Reviewer Removal](#)").

**.A7** Determining whether there is a pattern of reviewer performance findings that warrants a PDL is a matter of professional judgment. The assessment includes considering the recentness, nature, and pervasiveness of the issues, factoring in the volume of reviews performed by the reviewer. For example,

- a. a pattern of performance findings may be present when a low-volume reviewer performs three reviews each peer review cycle and reviewer performance findings were noted for all three in that cycle.
- b. a pattern of performance findings may not be present when a high-volume reviewer performs over 100 reviews each peer review cycle and reviewer performance findings were noted on three of the reviews in that cycle.

**.A8** If AICPA staff become aware of a pattern of reviewer performance findings or reviewer performance deficiencies (regardless of whether a pattern is present) by a particular reviewer, staff will consult with the affected AEs to determine whether a PDL is being drafted. If no PDL is being drafted or will be drafted, staff may refer the reviewer performance issue to the board. The board's process for issuing the PDL is consistent with the process at the AE level.

**.A9** Details of the appeal process are covered in appendix A, "AICPA Peer Review Board Rules of Procedures for Reviewers," of section 200.

**.A10** Evidence supporting the issuance of a PDL may include, but is not limited to,

- a.* suspensions for failure to perform in a timely and professional manner,
- b.* reviewer performance feedback forms,
- c.* other PDLs, and
- d.* results of oversight.

*Reviewer Removal (Ref: par. .11, .13, and .15)*

**.A11** The committee may also recommend that a reviewer be removed from the list of qualified reviewers if the reviewer

- a.* fails to comply with peer review standards and guidance such that reviewer performance deficiencies or a pattern of reviewer performance findings is noted.
- b.* fails to submit documentation to support the experience reflected on the reviewer's résumé.
- c.* fails to perform in a timely and professional manner, resulting in suspension.

**.A12** The board may remove the reviewer's name from the list of qualified reviewers or require some other actions based on the facts and circumstances presented.

**.A13** AICPA staff will consult with the affected AEs to determine whether a letter requesting the reviewer be removed from the list of qualified reviewers is being drafted if AICPA staff become aware that a reviewer

- a.* refuses to cooperate with the committee or board.
- b.* failed to correct performance deficiencies or findings after a corrective action had been imposed.
- c.* failed to comply with peer review standards such that reviewer performance deficiencies or a pattern of reviewer performance findings is noted.
- d.* committed egregious acts in the performance of a review.

If no letter is being drafted or will be drafted by the AE, staff may refer the matter to the Oversight Task Force (OTF), which will consider the need to refer the reviewer to the board for potential removal from the list of qualified reviewers. The process for the OTF is consistent with the process at the AE level.

**.A14** A reviewer may apply for reinstatement as a reviewer by writing a letter to the board. Reinstatement may be granted at the discretion of the board chair (or designee) no sooner than three years after the date the reviewer was removed from the list of qualified reviewers. If approved for reinstatement, the reviewer will be sent a letter indicating that the reviewer is able to schedule and perform reviews. It is expected that those reviewers who are granted reinstatement will be required to undergo corrective actions and may be subject to restrictions to be determined by the board chair (or designee). Those required actions or restrictions will also be detailed in the letter.

**.A15** Documentation supporting removal from the list of qualified reviewers includes, but is not limited to,

- a. reviewer performance feedback forms issued,
- b. deficiency letters,
- c. results of oversight,
- d. information from other communications (whether verbal or written),
- e. notes from committee and RAB meetings, and
- f. a timeline outlining the various communications.

*Considerations When a Reviewer Is Issued a PDL (Ref: par. .16)*

<b>.A16</b>	
<b>Considerations When a Reviewer Has Restrictions or Corrective Actions Imposed via a PDL Not Acknowledged by the Reviewer</b>	
<b><u>Situation</u></b>	<b><u>Action</u></b>
The PDL has not been acknowledged or appealed within 30 days of the date of the letter (or an agreed-upon extended due date).	The reviewer is restricted from scheduling and performing reviews that have been scheduled but not commenced.
The PDL has not been acknowledged or appealed and the review commenced.	Because the corrective actions cannot be imposed prior to acknowledgment or appeal from the reviewer, consider oversight on the review. If oversight is not performed, consider a full technical review of all working papers related to the peer review.
<b>Considerations When a Reviewer Has Restrictions or Corrective Actions Imposed via a PDL Acknowledged by the Reviewer</b>	
<b><u>Situation</u></b>	<b><u>Action</u></b>
The PDL requires oversight or a pre-issuance review and the technical reviewer has not submitted the review for RAB consideration.	The action in the PDL is adhered to by all AEs. Notify the firm if fieldwork has been completed and the action will delay the acceptance of the review.
The PDL requires oversight or a pre-issuance review but the technical reviewer has already submitted the review for RAB consideration.	Consider deferring acceptance of the review until oversight procedures can be performed. If oversight is not performed, consider a full technical review of all working papers related to the peer review. Based on the circumstances, the firm may be contacted to discuss the situation.
The PDL requires oversight or a pre-issuance review and the review has already been accepted but the acceptance letter has not been sent.	Consider delaying sending the acceptance letter until oversight or a full technical review of all working papers can be performed. Based on the results of any procedures, consider contacting AICPA staff to discuss the impact of the results. Based on the circumstances, the firm may be contacted to discuss the situation.
The PDL requires oversight or a pre-issuance review but the review has already been accepted, the acceptance	Consider oversight or a full technical review of all working papers related to the peer review. Based on the results of any

letter has been sent, and the working papers are within the document-retention period.	procedures, consider contacting AICPA staff to discuss the impact of the results.
The PDL requires oversight or a pre-issuance review and the review has already been accepted and the acceptance letter has been sent, but the working papers are not within the document-retention period.	Contact AICPA staff to discuss the impact on reviews performed by the reviewer.

*Considerations When a Reviewer Is Removed From the List of Qualified Reviewers (Ref: par. .17)*

<b>.A17</b>	
<b>Considerations When a Reviewer Is Removed From the List of Qualified Reviewers</b>	
<b><u>Situation</u></b>	<b><u>Action</u></b>
The review has not commenced.	If the reviewer fails to contact the reviewed firm to withdraw from the review within five business days of being notified of removal, the AE may contact the firm to inform it that the reviewer will not be able to perform the firm's review. Only the reviewer is authorized to provide details or explanation of the reasons why the reviewer is unable to perform the review.
The review has commenced but fieldwork is not complete.	The reviewer is not eligible to complete the review. The firm needs to reschedule the review.
Fieldwork is complete but the technical reviewer has not submitted the review for RAB consideration.	Consider whether any oversight procedures should be performed. If oversight is not performed, consider a full technical review of all working papers related to the peer review.
The technical reviewer has submitted the review for RAB consideration.	Consider deferring acceptance of the review until oversight procedures can be performed. If oversight is not performed, consider a full technical review of all working papers related to the peer review. Based on the circumstances, the firm may be contacted to discuss the situation.
The review has been accepted but the acceptance letter has not been sent.	Consider delaying sending the acceptance letter until oversight or a full technical review of all working papers can be performed. Based on the results of any procedures, consider contacting AICPA staff to discuss the impact of the results. Based on the circumstances, the firm may be contacted to discuss the situation.
The review has been accepted, the acceptance letter has been sent, and the working papers are within the document-retention period.	Consider oversight or a full technical review of all working papers related to the peer review. Based on the results of any procedures, consider contacting AICPA staff (who may consult legal counsel) regarding the impact of the results.
The review has been accepted and the acceptance letter has been sent, but the	Contact AICPA staff (who may contact legal counsel) to discuss the impact on reviews performed by the reviewer.



working papers are not within the document-retention period.	
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### **Performing in a Timely and Professional Manner (Ref: par. .18)**

**.A18** The AE or AICPA staff may refer the reviewer to the board for national suspension. The technical director of the program (or designee) will determine if it is appropriate to form a hearing panel to consider the suspension.

**.A19** A reviewer may appeal a suspension; however, the appeal does not lift nor delay the suspension. If the reviewer appeals a suspension, the technical director of the program (or designee) will determine if it is appropriate to form a hearing panel to consider the suspension appeal.

### **Reviewer Qualifications (Ref: par. .20 and .21)**

**.A20** When it comes to the attention of AICPA staff that a reviewer may not meet all qualifications required by the standards, staff will contact the reviewer to validate the qualifications that the reviewer may no longer possess. The reviewer is expected to respond to such communication within the requested time and may be able to continue to schedule and perform reviews if the reviewer can provide proof of meeting the qualifications and in certain other situations. Situations in which it may be determined that the reviewer should still be eligible to schedule and perform reviews include, but are not limited to, the following:

- a. The reviewer's firm has not had its most recent peer review completed by the due date; however, the peer review working papers have been submitted and the peer review is scheduled to be presented for acceptance.
- b. An engagement within the reviewer's firm's peer review has been selected for oversight.
- c. The firm's records or offices have been severely damaged or destroyed because of a natural disaster or catastrophe.
- d. The firm was granted an extension so a major engagement can be completed and be subject to review.
- e. The firm was granted an extension to complete an initial engagement where there is no comparable engagement to review (such as a new must-select engagement).

**.A21** If AICPA staff confirm the individual does not currently possess all reviewer qualifications, the individual is notified that the individual is prohibited from scheduling or performing reviews nationally. The individual remains ineligible until either

- a. AICPA staff or the board approves documented evidence that the reviewer possesses all the qualifications required of a reviewer or
- b. the reviewer appeals the ineligibility letter and a hearing panel determines that the reviewer possesses all reviewer qualifications.

**.A22** Once AICPA staff receive evidence of compliance with reviewer qualifications, staff will

- a. approve reinstatement for certain ineligibility reasons or
- b. send evidence to three board members requesting approval to allow the reviewer to continue performing reviews.

**.A23** AICPA staff may approve reinstatement if evidence is received that the following ineligibility reasons have been rectified:

- a. The reviewer's AICPA membership had lapsed or was suspended.
- b. The reviewer's firm's peer review was not accepted within the last three years and six months.
- c. The reviewer's firm's most recently accepted peer review resulted in a report rating of *pass with deficiencies* or *fail*.

*Considerations When a Reviewer Is Ineligible to Schedule or Perform Reviews (Ref: par. .22)*

<b>.A24</b>	
<b>Considerations When a Reviewer Is Deemed Ineligible to Schedule or Perform Reviews</b>	
<b><u>Situation</u></b>	<b><u>Action</u></b>
The review has not commenced.	The reviewer is not eligible to perform the review. If the reviewer fails to contact the reviewed firm to reschedule or withdraw from the review, the AE may contact the firm to inform the firm that the reviewer will not be able to perform the firm's review. For instance, if a reviewer is notified that the reviewer is not qualified to schedule or perform peer reviews on May 1 and a review scheduled to commence on May 15 is not rescheduled by May 7, the AE may inform the firm that "its reviewer cannot perform the review at this time, and if further information is required, please contact your peer reviewer." Only the reviewer is authorized to provide details or explanation of the reasons why the reviewer is unable to perform the review.
The reviewer commenced the review after being deemed ineligible.	The reviewer is referred to the board for removal from the list of qualified reviewers (see paragraphs .20–.24).
The review has commenced but fieldwork is not complete.	Consider whether the remaining fieldwork needs to be performed by an eligible reviewer or whether any oversight procedures need to be performed.
Fieldwork is complete but the technical reviewer has not submitted the review for RAB consideration.	Consider whether any oversight procedures need to be performed. If oversight is not performed, consider a full technical review of all working papers related to the peer review.
The technical reviewer has submitted the review for RAB consideration.	Consider deferring acceptance of the review to perform oversight or a full technical review of all working papers. Based on the results of any procedures, consider contacting AICPA staff to discuss the impact of results. Based on the circumstances, the firm may be contacted to discuss the situation.

The review has been accepted but the acceptance letter has not been sent.	Consider delaying sending the acceptance letter to perform oversight or a full technical review of all working papers. Based on the results of any procedures, consider contacting AICPA staff to discuss the impact of results. Consider contacting the firm to discuss the situation.
The review has been accepted, the acceptance letter has been sent, and the working papers are within the document-retention period.	Consider performing oversight or a full technical review of all working papers. Based on the results of any procedures, consider contacting AICPA staff to discuss the impact of results. Do not destroy the working papers until all procedures have been performed and a resolution has been reached. Based on the circumstances, the firm may be contacted to discuss the situation.
The review has been accepted and the acceptance letter has been sent, but the working papers are not within the document-retention period.	Contact AICPA staff to discuss the impact the missing qualifications may have on reviews performed by the reviewer.
A reviewer is suspended for failing to verify résumé information.	Consider performing oversight procedures on reviews that have been submitted to the AE. For reviews that have been accepted within the document-retention period, consider performing oversight. Discuss the results with the reviewer if the results of the oversight indicate that the reviewer had performance issues. If the reviewer is unable to justify the reviewer's conclusions by citing professional standards, this may indicate reviewer performance deficiencies or findings. If there is concern about the reviewer's performance, contact AICPA staff to discuss the situation. Consider contacting the firm to discuss the situation.

### **Allegations or Investigations (Ref: par. .23)**

**.A25** Allegations or investigations do not automatically mean a reviewer is ineligible to perform reviews; however, there may be situations in which the AE or RAB conclude that the nature, significance, or pervasiveness of the alleged deficiencies or an already-existing preponderance of evidence necessitate immediate action to overcome any concerns.

### **Limitations or Restrictions (Ref: par. .24–.25)**

**.A26** Reviewers and firms may be subject to limitations or restrictions by a regulatory body that affect their ability to practice or perform peer reviews. Examples include

- a. constraint of scope or volume of accounting and auditing engagements,
- b. required periodic reporting to the regulatory body,
- c. pre-issuance reviews of engagements, or
- d. additional peer review or professional education requirements.

**.A27** If a limitation is placed on a reviewer or reviewer’s firm that limits the reviewer’s ability to practice public accounting, the board will evaluate whether the reviewer is qualified to perform peer reviews or should be restricted from reviewing specific industry or engagement types. The evaluation will include the status of any reviews that the reviewer and firm are or were associated with since the date of the notification by a government or regulatory authority.

**.A28** Because reviews performed by a reviewer may be in different stages of completion when AICPA staff receive notification or knowledge of a limitation or restriction on a reviewer or reviewing firm, the board will consider various factors in determining if any reviews need to be

- a. rescheduled,
- b. subject to oversight or other additional procedures, or
- c. if a new review should be performed.

**.A29** Factors that the board will consider include, but are not limited to, the following:

- a. The type of peer review and the role of the peer reviewer for each preceding review
- b. The date of notification to the reviewer and reviewing firm by a government or regulatory authority of the limitation or restriction in comparison with the date of notification from the reviewer and firm to the AICPA staff
- c. Whether the reviewer and firm appropriately and timely notified AICPA staff of the limitation or restriction
- d. Whether the reviewer and firm scheduled reviews without notifying AICPA staff of such limitations or restrictions
- e. Whether the limitation or restriction is related to a particular type of service (tax versus audit and attest or audits, reviews, or compilations); industry oversight; regulatory oversight, such as engagements falling under the purview of a particular regulator; or state board of accountancy oversight
- f. Whether the limitation or restriction is permanent or indefinite in duration (that is, the reviewing firm is restricted from performing audits until the firm complies with some requirement, but the firm has chosen to no longer perform audits, so the limitation or restriction will always be there)
- g. Whether the limitation or restriction is temporary
- h. The history of qualification, performance, and noncooperation matters and any other information relevant to these matters
- i. Any documents that describe violations of professional standards as well as the reviewer’s peer review history

<b>.A30</b>	
<b>Considerations When a Reviewer or Reviewer’s Firm Becomes Restricted or Limited</b>	
<b><u>Situation</u></b>	<b><u>Action</u></b>
The review has not commenced — Total restriction	The reviewer is not eligible to perform the review because of the total restriction. If the reviewer fails to contact the reviewed firm to withdraw from the review, the AE may contact the firm to inform the firm that the reviewer will not be able to perform the firm’s review. Only the reviewer is

	authorized to provide details or explanation of the reasons why the reviewer is unable to perform the review.
The review has not commenced — Limited restriction	Ensure the review team is reconfigured to comply with the limited restriction, if applicable. For example, if a reviewer's limited restriction is that the reviewer is restricted from reviewing employee benefit plans, a team member with appropriate qualifications may be added to review that engagement, if applicable.
The review has commenced but fieldwork is not complete.	Consider whether any oversight procedures should be performed.
Fieldwork is complete but the technical reviewer has not submitted the review for RAB consideration.	Consider deferring acceptance of the review until oversight procedures can be performed. If oversight is not performed, consider a full technical review of all working papers related to the peer review.
The technical reviewer has submitted the review for RAB consideration.	Consider whether oversight procedures need to be performed. If oversight is not performed, consider a full technical review of all working papers related to the peer review. Based on the results of any procedures, consider contacting AICPA staff to discuss the impact of the results. Based on the circumstances, the firm may be contacted to discuss the situation.
The review has been accepted but the acceptance letter has not been sent.	Consider delaying sending the acceptance letter until oversight or a full technical review of all working papers can be performed. Based on the results of any procedures, consider contacting AICPA staff (who may consult legal counsel) to discuss the impact of the results. Based on the circumstances, the firm may be contacted to discuss the situation.
The review has been accepted, the acceptance letter has been sent, and the working papers are within the document-retention period.	Consider oversight or a full technical review of all working papers related to the peer review. Based on the results of any procedures, consider contacting AICPA staff to discuss the impact of the results. Do not destroy the working papers until all procedures have been performed and a resolution has been reached.
The review has been accepted and the acceptance letter has been sent, but the working papers are not within the document-retention period.	Contact AICPA staff to discuss the impact the limitation or restriction may have on reviews performed by the reviewer.

### **Reviewers That Consider Withdrawing From a Peer Review After the Commencement of the Review (Ref: par. .26)**

**.A31** Reasons a reviewer may withdraw from the peer review include, but are not limited to,

- a.* poor health,

- b.* not receiving the required documents from the reviewed firm within a reasonable time frame (or other lack of cooperation),
- c.* personality conflicts with the reviewed firm that cannot be overcome,
- d.* not meeting the requirements to be a peer reviewer after the fieldwork on a peer review has commenced.

**.A32** Withdrawing may lead to some issues that will need to be resolved solely by the peer reviewer and firm. Other issues (based on the validity and types of reasons) may relate to firm noncooperation or reviewer performance. Appropriate actions include, but are not limited to, the following:

- a.* Evaluating reviewer performance in accordance with paragraphs .05–.17 and acting accordingly, if applicable
- b.* Evaluating reviewer cooperation with paragraphs .29–.32 of section 200 and acting accordingly, if applicable
- c.* Evaluating the firm’s compliance with paragraphs .13–.18 of section 300, *General Principles and Responsibilities for Reviewed Firms*, and acting according to section 400, appendix A, “Failure to Cooperate or Comply With the Requirements of the Program Referral Responsibilities,” if applicable