

# Peer Review Board Open Session Materials

**August 6, 2014**

**Denver, CO**

**AICPA Peer Review Board  
Open Session Agenda  
August 6, 2014  
Denver, CO**

**Date/Time:** Wednesday August 6, 2014 10:00 AM – 12:00 PM (Mountain Time)

- 1.1 Welcome Attendees and Roll Call of Board\*\*- Mr. Reeder/Ms. McClintock
- 1.2 Approval of Engagement Review Reports Standard Changes Related to Pass with Deficiency vs. Fail\*- Ms. Ford
- 1.3 Approval of Exposure Draft related to Preparation Services\* - Ms. Ford
- 1.4 Approval of Revised Materials Related to Ensuring Population Completeness\* - Mr. Reeder
- 1.5 Discussion Paper Regarding Enhancing Audit Quality\*\*\*- Mr. Reeder
- 1.6 Update on the DOL Research Project\*\*-Ms. Lieberum
- 1.7 Report from State CPA Society Executive Directors\*\*-Mr. Ahler
- 1.8 Update on National Peer Review Committee\*\*-Mr. Gray
- 1.9 Update on Electronic Peer Review Program Manual\*\* - Ms. McClintock
- 1.10 For Informational Purposes:
  - A. Report on Firms Whose Enrollment was Dropped or Terminated\*- Ms. McClintock
  - B. Update on the MFC Project\*- Ms. McClintock
  - C. Standards Task Force Future Agenda Items\*-Ms. Ford
  - D. Education and Communication Task Force Future Agenda Items\*-Ms. Lee-Andrews
  - E. Oversight Task Force Future Agenda Items\*-Mr. Hill
- 1.11 Future Open Session Meetings\*\*-Ms. McClintock
  - A. Monday, September 29, 2014 Closed session – Conference Call
  - B. Tuesday, September 30, 2014 Open Session – Conference Call
  - C. November 2015 Open session – Conference call (Date TBD)
  - D. Monday, January 26-27, 2015 Task Force Meetings/Closed/Open – Puerto Rico
  - E. Monday, May 4-5, 2015 Task Force Meetings/Closed/Open Sessions – Location TBD
  - F. Wednesday, August 5, 2015 Closed/Open Sessions – New Orleans, LA

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\*- Document Provided

\*\*-Verbal Discussion

\*\*\*-Materials will be posted at a later date

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## Engagement Review Reports: Pass with Deficiencies vs. Fail

### Why is this on the Agenda?

On May 20, 2014, the PRB issued the [Engagement Review Reports: Pass with Deficiencies vs. Fail Exposure Draft](#) proposing that firms that perform more than one engagement, and the same deficiency is identified on each engagement, a fail report should be received. This change was proposed to address the inconsistencies in report ratings for firms that perform one engagement vs. multiple with deficiencies identified on each, as well as improve the transparency of reports. Refer to Agenda Item 1.2A for the standards and revisions changes as proposed.

### Feedback Received

Refer to Agenda Items 1.2B-1.2E for a summary of comments received. Although most of the respondents disagree with the proposed guidance, staff and the Peer Review Board have received informal feedback from various sources, including past conference attendees, that the guidance is inconsistent. Prior feedback received indicated they would be in favor of the proposed changes, as long as it created consistency among firms.

Based on comments received, there appears to be a misconception about the types of instances of noncompliance with professional standards that would be considered material and therefore result in a deficiency. As a reference, Appendix E of Section 6200, Instructions to Reviewers Performing Engagement Reviews, has been provided as it includes a list of matters and findings that generally would result in a deficiency or significant deficiency. Refer to Agenda Item 1.2H.

### PRISM Impact

Not applicable. The inclusion of report ratings in PRISM will not change.

### AE Impact

No impact to the administrative manual or processes. Technical reviewers will need to ensure that reviewers are following the new guidance, if approved.

### Communications Plan

Refer to Agenda Item 1.2G for the Peer Review Alert to be issued in August 2014.

### Manual Production Cycle (estimated)

If the proposals in the exposure draft are approved, the guidance would be included in the January 2015 manual. Refer to Agenda Item 1.2F for the correlating manual changes.

### Effective Date

The Exposure Draft proposes a September 1, 2014 effective date. The proposal is based on report date, not commencement date. However, based on feedback received, the proposed effective date has been changed to January 1, 2015.

### Board Consideration

- Consider the comments received and approve the changes to the Standards as presented in Agenda Item 1.2A and the correlating manual changes in Agenda Item 1.2F for peer review reports dated after January 1, 2015.
- Approve the Peer Review Alert in Agenda Item 1.2G.

## Proposed Revisions

### Peer Review Standards

#### Performing Engagement Reviews

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

.110 Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) to document these items, are intended to assist in determining the nature of the peer review report to issue:

- a. A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports, and the adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A matter is documented on a Matter for Further Consideration (MFC) form.
- b. A *finding* is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.
- c. A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information and/or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, ~~or when the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies,~~ such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- d. A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review ~~(with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs~~

~~on each of those engagements, and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of *pass with deficiencies*). When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.~~

## Reporting on Engagement Reviews

### Forming Conclusions on the Type of Report to Issue in an Engagement Review

#### **Engagement Review Report With a Peer Review Rating of Pass**

.117 A report with a peer review rating of *pass* is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, significant deficiencies, or recommendations. In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.

#### **Engagement Review Report With a Peer Review Rating of Pass with Deficiencies**

~~.118 A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards. A report with a peer review rating of *pass with deficiencies* is issued when at least one but not all of the engagements submitted for review contain a deficiency. However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of *pass with deficiency* should be issued rather than with a peer review rating of *fail*. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.~~

#### **Engagement Review Report With a Peer Review Rating of Fail**

.119 A report with a peer review rating of *fail* is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *fail* is issued when deficiencies are evident on all of the engagements submitted for review. ~~However, a report with a peer review rating of *pass with deficiency* should be issued when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies.~~ 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. In the event of a scope limitation, a report with a peer review rating of *fail (with a scope limitation)* is issued.

**Agenda Item 1.2B**

| In Favor | Opposed | Other | Total |
|----------|---------|-------|-------|
| 5        | 12      | 2     | 19    |

| Respondent              | State | Category                   | In Favor | Opposed | Other | Summarized Comments – <a href="#">Full comment letters</a> are posted on aicpa.org   |
|-------------------------|-------|----------------------------|----------|---------|-------|--|
| Catherine Allen,<br>CPA | IL    | State Society              |          | X       |       | <p>Agrees that changes are necessary to remove inconsistencies. However, the committee does not believe that only one deficiency noted by a reviewer should lead to a fail peer review report whether the firm performs one or multiple engagements. An alternative was suggested – 1) if a firm performs one engagement, one deficiency would result in a pass with deficiencies and two deficiencies would result in a fail and 2) if a firm performs multiple engagements, the same deficiency on all would result in a pass with deficiencies and multiple deficiencies would result in a fail.</p> <p>Further, the committee suggests an effective date of April 2015 to coincide with the new peer review season and the release of the April 2015 manual.</p> <p>Refer to Agenda Item 1.2C for complete response.</p> |
| David Brammer           | MT    | Legislative Audit Division | X        |         |       | <p>The recommended revision for deleting the exception in paragraph .110 d is reasonable. It is our opinion if multiple engagements under review have the same deficiency, this would seem to indicate there is a significant deficiency in the control structure of the entity under review, not just a deficiency in the individual engagements. This would indicate a larger problem overall and it is appropriate the review captain would</p>   |

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|----------------------------------|-------|---------------|----------|---------|-------|---|
|                                  |       |               |          |         |       | conclude that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. It is also appropriate this would result in a peer review rating of Fail. Based on this position, we also believe the proposed changes to paragraphs .118 and .119 to delete language related to the “rating of pass with deficiencies” are appropriate.  |
| Ashley W. Burrowes PhD, CMA, FCA | CA    | Professor     |          |         | X     | Recommends we get rid of pass with deficiencies all together stating it is “oxymoronic that conclusions of <i>material and critical</i> deficiencies should allow reviewees to pass albeit with a bittersweet reprimand.  |
| Anthony A. Cuozzo Jr., CPA       | MD    | Peer Reviewer |          | X       |       | <p>Even since I have been involved in the peer review process (both performing peer reviews and doing peer review training seminars), the overwhelming objective stressed was that the peer review program should be remedial rather than punitive. I believe the current exposure draft is contrary to this long-established principle on which the peer review program is based.</p> <p>The population to which this new standard would apply is primarily the sole or small firm practitioners who do not perform audit engagements-- especially those with high risk areas in A-133 and/or employee benefit plan engagements. The nature of the engagement peer reviews (due to the level of service in these types of CPA firms) means that a failure to fully comply with professional standards on one of those engagements presents much less risk to the public interest. In other words, failure to fully comply with professional standards in a compilation or review is much less likely to have the</p> |

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|                          |       |                 |          |         |       | <p>same impact in the public interest as a failure to comply with professional standards in an employee benefit plan audit or an A-133 audit. I believe that the end result of the proposed standard to these types of firms is to increase the punitive nature of the results of their peer reviews where there really should be less need to be punitive. I can tell you from our experience here in Maryland that our practitioners who undergo engagement reviews have a very positive attitude about the educational and practice management benefits of the AICPA peer review program.</p> <p>As a practicing peer reviewer, I cannot see how the proposed standard to issue a <i>fail</i> report to a firm with the same single deficiency on multiple engagements would serve to advance the quality of a CPA firm's practice. That standard seems to be more punitive rather than remedial in nature. I would offer that the AICPA Peer Review Committee might consider changing the type of engagement peer review report for a firm that performs only one engagement, and there is only a single deficiency from a <i>fail</i> to a <i>pass with deficiency</i> report. How can our profession say that our peer review program is remedial when we punish a small firm with the worst type of peer review report for having only one deficiency?</p> |
| Patrick J. Dossey<br>CPA | TX    | AICPA<br>Member |          | X       |       | I have read the above mentioned exposure draft and must take exception to the proposal to elevate a peer review rating of pass with deficiencies to a "fail" report SOLELY because the CPA firm has submitted more than one engagement for review and it contains the same "error."   |



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|                    |       |               |          |         |       | <p>What is the reasoning behind giving a “pass with deficiency” to a CPA that only submits one report for peer review vs. another CPA that submits two reports for peer review that has the same deficiency on both reports? What if the deficiency is the same item/deficiency for both CPAs? One gets a “fail” and the other a “pass with deficiency”?</p> <p>Punishment/rating for a given deficiency should be the same whether the CPA has two client reports being peer reviewed or one.</p> <p>Please enter my comment as a suggestion that “equal protection under the law” should apply to peer review pass/fail criteria. Kill the change. Peer review is already burdensome enough without another “gotcha”!</p> |
| Bucky Glover       | NC    | State Board   | X        |         |       | <p>The peer review program allows for the monitoring of CPA firms’ accounting and auditing practices, thereby enhancing the quality of those services and increasing public confidence and trust. Boards of Accountancy have a mandate to protect the public. The conclusions of a peer reviewer should be based on whether the engagement(s) were performed and reported in conformity with professional standards and not made in the context of whether the identified deficiency was evident in one engagement or multiple engagements. Removal of the exception should bring more consistency to reporting identified deficiencies across firms of all sizes.</p>  |
| David Holland, CPA | FL    | State Society | X        |         |       | <p>The Committee agrees with the proposed changes to the standards. The Committee has felt all along that it did not</p>  |

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|                 |       |                    |          |         |       | <p>seem equitable that when a firm has all of its engagements (more than one) that were considered materially non-conforming but for the exact same deficiency received a pass with deficiency report, but if a firm only had one engagement and it was for only one reason that firm received a fail report.</p> <p>The Committee believes the effective date should be revised for reports with a report date on or after January 1, 2015. Based on a recent AICPA Peer Review Board Meeting open agenda, guidance would be included in the January 2015 manual. As a result, the Committee felt the implementation date should be delayed until the manual has been updated.</p> |
| J. Scott Hughes | NC    | State Society      |          | X       |       | <p>While we acknowledge the exception resulted in inconsistent report ratings for engagement reviews, particularly for firms only having a single engagement, we do not totally embrace the “all or nothing” concept this change implies. Our concern lies within the fact it is all but impossible to establish “hard and fast” rules that apply to every set of circumstances.</p> <p>The comment letter provides suggestions for enhancing quality. Refer to Agenda Item 1.2D.</p>   |
| Roger Johnson   | TN    | Technical Reviewer | X        |         |       | <p>The purpose of this message is to communicate my whole-hearted support for "Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews – Reporting on Engagement Reviews" (hereinafter referred to as "the ED") issued on May 20, 2014. Without question, I believe the Peer Review Board was correct in adopting this change and exposing it for</p>  |

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|----------------------|-------|------------|----------|---------|-------|--|
|                      |       |            |          |         |       | <p>comments.</p> <p>Nonetheless, I have a comment on the proposed revisions. <i>Standards</i> paragraph .110a has not been altered by the ED. Its last sentence reads: "A matter is documented on a Matter for Further Consideration (MFC) form." However, introduction or advancement of PRISM since 2009 has resulted in discontinuance of the MFC "form" -- substantially speaking of course. Should the text of .110a be revised to reflect PRISM-processing of MFCs?</p> <p>Staff Note: We do still identify it as an MFC "form", even in PRISM. Also, as the Standards are used by non-AICPA member firms and use of the electronic forms are not an option for them at this time, the use of "form" is appropriate.</p> |
| J. David Joiner, CPA | TX    | Non-Member |          |         |       | <p>I oppose everything in the Exposure Draft. Under this proposal, let's say we have a compilation with 56 pages of material, most of which is supplementary information. Let's then say that the CPA left off the caption "See independent accountant's compilation report" on ONE PAGE because of a pagination program with the printer. Everything else on the report is totally correct.</p> <p>That would result in a failed report and that is absolutely ridiculous. How does that serve the public? It totally misleads them.</p> <p>The entire peer review process is totally out of control. A long time ago I realized that the AMA is an advocacy</p>  |

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|-----------------|-------|---------------|----------|---------|-------|--|
|                 |       |               |          |         |       | <p>entity for doctors. The AICPA is the equivalent of the AMA for CPA's, but it is a punitive entity doing nothing more than attempting to find out what was done wrong and punishing people, without providing any positive advocacy.</p> <p>That is why I resigned from the AICPA some years ago, not wanting to be affiliated with a punitive rather than an advocative entity.</p> <p>Staff Note: Clarification was provided to Mr. Joiner as the example he provided would not result in a nonconforming engagement and therefore would not result in a pass with deficiencies or fail engagement. Mr. Joiner was referred to Appendix E of Section 6200 for clarification of what would result in a deficiency. Staff also provided clarification on the changes being proposed in the exposure draft.</p> |
| Dusty Kemp, CPA | GA    | Peer Reviewer |          | X       |       | <p>I am greatly opposed to the proposed change issued by the PRB to eliminate the exception made for firms undergoing an Engagement Review. From my perspective this will turn Engagement Reviews into pass/fail and I don't believe that is the intention of the Peer Review Program. In my experience, for an Engagement Review if a firm has a deficiency it is usually an oversight that is present on all engagements especially if a firm only does compilations that omit disclosures. I can probably count on one hand the number of reviews our firm has done in the last 5 years that would receive a pass with deficiency report under the proposed change.</p> <p>The feedback I had given to the states, was that a fail</p>  |

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|                              |       |               |          |         |       | report for a firm that had one deficiency on the only engagement it performed should be changed to a pass with deficiency and it seems the Board has done a complete 180 from the feedback offered. It would be better to make no change at all as at least firms only having one engagement are rare. If the proposed change is allowed to go through, you will see a massive increase in the number of fail reports in my opinion to the detriment of the profession as the Peer Review program should be more about educating rather than punishing smaller firms who make one oversight.  |
| Maryland Association of CPAs | MD    | State Society |          | X       |       | <p>The Committee members were concerned that the proposed changes to the Standards are overly punitive, especially for small firms. We believe the profession would be best served by holding off on these types of incremental fixes and instead be considered as part of the planned review of the entire Standards for Performing and Reporting on Peer Reviews.</p> <p>If the Board should elect to implement the proposed changes, we recommend allowing sufficient transition time and a focused educational effort to inform small firms of the changes, perhaps through free CPE.</p> |
| Michael Mosier, CPA          | GA    | Peer Reviewer |          | X       |       | <p>In my opinion the PRB should have stated that if a firm only has one engagement selected for review with only one deficiency then the firm would receive a Pass with Deficiency instead of a failed report. Just opposite of the PRB new position.</p> <p>The PRB new position will most likely create substantially more Failed Reports for firms only issuing Compilation</p>  |

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|                        |       |               |          |         |       | Without Disclosures. These firms only have two engagements reviewed and in almost every instance if they have a matter that creates a deficiency on one engagement the issue is usually also on the second engagement. A common example of this is the accountant's report not being updated for SSARS 19.  |
| Charles J. Naber, CPA  | IN    | State Society | X        |         |       | <p>The Committee agrees with the proposed changes in the exposure draft. The objective of an Engagement Review is to evaluate whether engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects. If the evaluation of those engagements by the peer reviewer determines that deficiencies exist are identified on all engagements submitted for review and the firm is granted a form of a pass report, then the objectives of the Engagement Review have not been met. To achieve the objectives of an Engagement Review, a failed report should be issued.</p> <p>Each engagement submitted for review should stand on its own...if <u>all</u> the engagements submitted for review contain a deficiency, then a failed report should be issued regardless of the number of engagements submitted for peer review.</p> |
| Kristin R. Nevills CPA | CA    | Non-Member    |          | X       |       | The purpose of peer review is to assure that quality controls are being applied in conformity with AICPA's standards which ultimately serve the public. Peer review should not be used as a tool to punish CPA's but as a resource to improve reporting and quality controls that ultimately serves our clients and the public. The vast majority of accountants are honest and trying to correctly   |

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|                            |       |               |          |         |       | <p>follow the voluminous and bloated amounts of regulations required when preparing financial statements. A failing grade is made public and can affect our ability to attract and retain clients as well as protect ourselves in legal suits. This should not be the intent of peer review. Peer review should be a tool which provides support and knowledge to CPA's. A much better approach when finding errors would be to have the CPA correct the errors and submit new financials for review. Upon finding the same errors on subsequent peer reviews a failed review may be appropriate.</p> <p>In California, where I practice peer review is required even if only one financial statement is prepared all year long. For most CPA's helping small businesses like me, the majority of financial statements we prepare are used to help with credit decisions. CPA's submitting to engagement reviews are not preparing financial statements for the unknowing public. That is not to say that our work is insufficient. But it is to say that peer review could and should be an additional tool we can use to better the presentation quality of the statements we are preparing.</p> |
| W. Hunter Robinson CPA PFS | TN    | AICPA Member  |          | X       |       | I believe repetitive comp reports issued monthly by computer generated software could repeat the same error such as headings etc that should continue to result in a pass with deficiency not what appears would result under proposal as a fail.  |
| Daniel R. Sandstrom, CPA   | MD    | Peer Reviewer |          | X       |       | Appreciates that there are inconsistencies created by current guidance but expressed concern that the proposed changes will impact a large segment of the  |

| Respondent             | State | Category      | In Favor | Opposed   | Other    | Summarized Comments – <a href="#">Full comment letters</a> are posted on <a href="#">aicpa.org</a>  |
|------------------------|-------|---------------|----------|-----------|----------|---|
|                        |       |               |          |           |          | Engagement Review population in a very negative way. Suggested waiting to make any changes until after the Enhanced Audit Quality initiatives have taken place.<br><br>See Agenda Item 1.2E for complete response.  |
| June Elaine Tyler, CPA | TX    | AICPA Member  |          | X         |          | I think the above is very unfair. I do not think that a peer review rating of fail should be issued for the current review. It is my opinion that if the same deficiencies are noted in all the engagements submitted for the next review, then the peer review rating of fail should be issue on this next review.   |
| Brad Watts             | TX    | Peer Reviewer |          | X         |          | Rather than see the same deficiencies on different engagements being able to cause a fail, I'd rather see a single engagement review have the opportunity to have a pass with deficiencies report. That is where the inconsistencies seem to be to me. There are 3 types of reports, but if you do 1 engagement, you only have the opportunity to pass or fail. |
|                        |       | <b>Total</b>  | <b>5</b> | <b>12</b> | <b>2</b> |   |



Administered by the **Illinois CPA Society**

550 W. Jackson, Suite 900, Chicago, IL 60661-5742

June 24, 2014

Rachelle Drummond, Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road  
Durham, NC 27707-8110

Dear Ms. Drummond:

The Peer Review Report Acceptance Committee of the Illinois CPA Society (Committee) is pleased to provide our comments on the Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: *Reporting on Engagement Reviews*. The Committee consists of 28 CPAs from public practice ranging in size from sole practitioner to large national firms. Experience on the Committee ranges from newly appointed to inception of the Program. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

### **General Comments**

The Committee agrees that revisions are necessary to the Peer Review Standards relating to Engagement Reviews to remove the inconsistencies in the report ratings when there is one deficiency noted on the firm's sole engagement. However, the Committee does not agree with the proposal that the same deficiency on multiple engagements, with no other deficiencies, should result in a "fail" report and recommends an alternative revision to the Peer Review Standards.

### **Alternative Position**

Under the current standards, a firm that performs only one engagement could only receive a report rating of "pass" or "fail" on their Engagement Review. This would not change under the current proposal. The Committee believes that the Peer Review Standards should permit a firm that performs only one engagement the same opportunity as a firm that performs multiple engagements to receive a report rating of "pass," "pass with deficiency(ies)," or "fail" on their Engagement Review. The Committee does not believe that only one deficiency noted by a reviewer should lead to a "fail" peer review report whether the firm performs one engagement or multiple engagements.

As a result, the Committee recommends the following revision to the Peer Review Standards for Engagement Reviews:

1. When the firm performs only one engagement:
  - a. One deficiency noted on the firm's sole engagement would lead to a peer review report rating of "pass with deficiency."
  - b. Two or more deficiencies noted on the firm's sole engagement would lead to a peer review report rating of "fail."
2. When the firm performs multiple engagements:
  - a. The same deficiency on all engagements selected for review with no other deficiencies noted would lead to a peer review rating of "pass with deficiency."
  - b. Multiple deficiencies covering all the engagements selected for review would lead to a peer review rating of "fail."

The Committee believes this position leads to the most consistent and fair report ratings for Engagement Reviews.

#### **Effect on the Current Peer Review Standards**

If the Peer Review Board accepted the Committee's alternative position, there would be minimal revisions required to the current Peer Review Standards. Currently, paragraphs 118 and 119 on pages 1028 and 1029 of the Peer Review Standards (version 00-9 APR 2014) read as follows:

#### ***Engagement Review Report With a Peer Review Rating of Pass with Deficiencies***

.118 A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards. A report with a peer review rating of *pass with deficiencies* is issued when at least one but not all of the engagements submitted for review contain a deficiency. However, when ~~more than one engagement has been submitted for review, and~~ the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of *pass with deficiency* should be issued rather than with a peer review rating of *fail*. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.

### ***Engagement Review Report With a Peer Review Rating of Fail***

.119 A report with a peer review rating of *fail* is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *fail* is issued when deficiencies are evident on all of the engagements submitted for review. However, a report with a peer review rating of *pass with deficiency* should be issued when ~~more than one engagement has been submitted for review, and~~ the exact same deficiency occurs on each of the engagements, and there are no other deficiencies. 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. In the event of a scope limitation, a report with a peer review rating of *fail (with a scope limitation)* is issued.

Under the Committee's alternative proposal, the only change necessary to the Peer Review Standards would be to remove the language, "more than one engagement has been submitted for review, and" (as noted above).

### **Effective Date**

The Peer Review Board recommends an effective date of September 1, 2014 for any changes to the Peer Review Standards. The Committee recommends that the Board consider moving back the effective date to reviews with a report date on or after April 1, 2015 to coincide with the new peer review season and the release of the April 2015 version of the Peer Review Manual. An effective date of September 1, 2014 does not leave much time to communicate the changes to peer reviewers across the country. Also, this date is right in the middle of peer review season and will lead to reviewers having to follow new guidance for engagement reviews in the middle of the season and a higher likelihood that RABs will consider reviews at the same meeting under different standards. The Committee believes an implementation date of April 1, 2015 allows reviewers to begin a new peer review season fresh with a new set of standards for Engagement Reviews. We also feel this would leave adequate time to inform peer reviewers of the changes to the Peer Review Standards.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

**Catherine Allen, CPA**

Chair, Peer Review Report Acceptance Committee

**Robert Giblichman, CPA**

Vice-chair, Peer Review Report Acceptance Committee

AICPA Peer Review Program  
 NCACPA Peer Review Program  
 NCACPA Peer Review Program for Non-Members  
 Administered by the North Carolina Association of CPAs



July 1, 2014

Ms. Rachelle Drummond  
 Senior Technical Manager  
 AICPA Peer Review Program  
 220 Leigh Farm Road  
 Durham, NC 27707-8110

By e-mail: PR\_expdraft@aicpa.org

**Re: AICPA Peer Review Board's Exposure Draft – Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews – Reporting on Engagement Reviews – May 20, 2014**

Dear Ms. Drummond:

The North Carolina Association of Certified Public Accountants, representing over 13,000 North Carolina CPAs in public practice, industry, government, and education, welcomes the opportunity to comment on the exposure draft referenced above. The NCACPA Peer Review Committee deliberated the exposure draft and submits the following response:

The proposal being considered would change the impact to an engagement review report when more than one engagement has been submitted for review; the same exact deficiency occurs on each of the engagements submitted for review; and there are no other deficiencies. Currently, firms would receive a pass with deficiencies in this scenario. The proposed changes would instead result in a fail report.

This change would return guidance to its origin and the point at which the AICPA Peer Review Board created this exception allowing a report with a peer review rating of pass with deficiency rather than with a peer review rating of fail.

While we acknowledge the exception resulted in inconsistent report ratings for engagement reviews, particularly for firms only having a single engagement, we do not totally embrace the "all or nothing" concept this change implies. Our concern lies within the fact it is all but impossible to establish "hard and fast" rules that apply to every set of circumstances.

We practice (and peer review) in an environment filled with nuances and issues that require interpretation including standards changes that are implemented more quickly than many firms can absorb and understand them. This is particularly the case in circumstances where a firm is mainly a tax practice and performs only limited A&A services.

We believe the foundational “educational and remedial” tenants, on which the peer review program is based, have become problematic in that the lessons offered only once in three years are unsustainable in an environment that wants to change standards and implement them within the shortest possible timeframe. The Peer Review program is unable to quickly respond and deliver an opinion for a firm in which a practitioner lacks specific competence. The current mechanisms for timely education on potential changes are slow to achieve results as well. As a result, remediation of those practitioners takes longer than it should because it often takes an entire three year cycle or longer for a firm to discover what it doesn’t understand and to gain that competency and correct what is wrong.

For example, implementation of SSARS 19 moved hundreds of firms from pass (or unmodified) reports to either a “pass with deficiencies” or “fail” report, often impacted by circumstances seemingly beyond the firm’s control. Continuous unabated changes in standards will likely yield similar results as the implementation of the currently exposed guidance on financial statement preparation and revisions to the compilation guidance occurs. We expect many firms that missed SSARS 19 changes may also miss these changes for the same reasons.

As peer reviewers, an Engagement Review does not approach these issues systemically, yet it is usually the systemic issues that seem to cause firms having engagement reviews to have such deficiencies. We believe requiring education for firms with limited accounting and auditing engagements is a concept worth considering. We believe requiring a firm to have continuing education in accounting and auditing subjects of annually is useful, whether that firm is reporting on SSARS or GAAS engagements. Perhaps the time has come to at least measure an engagement reviewed firm’s CPE against its areas of practice to determine it is attempting to be current in the areas in which it practices.

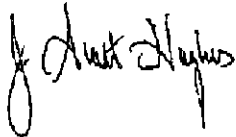
The type of Peer Review report to be issued is dependent on an initial determination a deficiency exists rather than a finding or a matter. Since judgment is required to determine the accurate nature of the issue, we believe the review captain (with the RAB’s approval and acceptance) should also be given latitude to determine the significance of the issue and be given the ability to conclude what type of report is most appropriate. Further, since the issue must ultimately be accepted by the RAB, we believe additional emphasis should be placed on documenting and evaluating (within the documents to be submitted to the RAB) the issue in order to determine it either rises to, or does not rise to, the level of a significant deficiency before a fail report is

warranted. Those situations should be at a high level and include circumstances in which financial statements are misleading or are of such significance that recall of the financial statements should be considered to protect the public interest.

If this exposure draft is intended to effect change regarding whether a pass with deficiency or fail report is warranted, the mechanisms to accomplish that change rest with the RAB and the AE by requiring appropriate and meaningful follow-up, and provides proof of the changes desired by that firm. The fail or pass with deficiencies report is only the means to that more important end. We believe strengthening the expectation for follow up will do more to enhance practice quality than specific requirements on what type of report must be issued.

If you would like additional discussion with respect to the attached comments, please contact J. Scott Hughes, chair of the NCACPA Peer Review Committee, at (828) 225-3627. This response was approved for release by the NCACPA Executive Committee on June 30, 2014

Sincerely,



J. Scott Hughes, CPA, Chairman  
NCACPA Peer Review Committee

cc: Cindy Brown, CPA, Chair, NCACPA Board of Directors  
Dan Purvine, CPA, Chair Elect, NCACPA Board of Directors  
Art Winstead, CPA, Liaison Director to the committee  
James T. Ahler, NCACPA CEO  
Nikki Vann, CPA, Director of Finance and Administration  
Mary Kelly, Peer Review Coordinator

**Drummond, Rachelle**

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**From:** Dan <DRS@COScpas.com>  
**Sent:** Monday, June 23, 2014 9:07 AM  
**To:** PR\_expdraft  
**Cc:** Joanne Yoo; Costello, William  
**Subject:** May 20, 2014 PR ED

Rachelle Drummond,

This represents my personal comments on the referenced exposure draft (ED).

As someone who is involved w/ peer review, I can appreciate the inconsistency being addressed in this ED. I must agree that under current circumstances, it seems a little unfair for those instances where a firm only performing one engagement subject to review for which a deficiency is reported, causes a *fail* report to be issued as compared to a firm that submits two (or more) engagements for review and has a recurring deficiency on each engagement receives a *pass w/ deficiency* report if all deficiencies are identical.

However, under the ED proposal, I think we may be swinging the pendulum to far the other direction. Under current practice, the party for which the results can be unfair is the smaller firm having only one engagement as well as the larger firms where there may be different deficiencies but the severity is less than the repeat deficiency that generates a report other than fail. Now, under the ED, the party for which the results can be unfair becomes the very party to which the current exception applies. Consider the scenario where a small firm having only two engagements for which the deficiency is that the report failed to note the omission of a statement of cash flows compared to several engagements submitted for review and each having serious problems w/ recognition and/or measurement (e.g., financial instruments or revenue recognition). Under the ED, they both receive a fail report. I realize there is no perfect answer – someone can always claim they are being treated unfairly but I think you need to think about avoiding the greatest “harm” and proceed accordingly. It has been my experience that often times the number of engagements submitted for review are two or three and that when a deficiency is reported it is present on each engagement – in other words, this proposed change is likely to impact a large segment of the Engagement review population in a very negative way.

It seems to me part of the problem may be the trigger for a fail report under an Engagement review – that is, the definition of a significant deficiency is a mere mechanical exercise not unlike an “on –off” switch w/ the only use of professional judgment being if the matter rises to a deficiency (which, in turn, is basically defined as a substandard or non-conforming engagement). I wonder if there is a way to revise these definitions to allow some consideration of severity at the significant deficiency level – clearly the listing of deficiencies under PRP 6200 are not all the same in terms of severity (which I would think of in terms of relevance to users)? As just one example of giving consideration to relevance, take the example at PRP 6200.52 where the failure to disclose the omission of a statement of cash flows is considered resulting in a substandard engagement. I think one can argue that there is a pretty big difference in terms of relevance if the reporting entity is a small professional services company w/ no investing or financing activities compared to a large construction company or regional home health agency that has both financing and investing activities. Given the impending systemic-wide effort by the AICPA regarding audit quality (which I applaud) and the apparent consequential changes in store for practice monitoring and the peer review program, I also wonder if it would make more sense to hold off on adopting this ED until those other changes are considered / exposed for comment?

I appreciate all the AICPA does for our profession.

Daniel R. Sandstrom, CPA  
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## Correlating Manual Changes

**Section 1000 Peer Review Standards**

.220

**Appendix N****Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in an Engagement Review**

This illustration assumes either the review captain concludes that deficiencies are not evident on all of the engagements submitted for review ~~or that the exact same deficiency occurs on each of the engagements submitted for review and no other deficiencies exist.~~ Otherwise, this firm would have received a peer review rating of *fail*.

In the event of a scope limitation, include an additional paragraph (as described in paragraph 122j of the standards), and follow the illustrations for System Reviews with scope limitations (see appendixes D, G, and K).

*Staff Note – The rest of the report illustration in Appendix N was omitted from the materials as no further changes are necessary.*

**Section 2000 Peer Review Standards Interpretations****Reporting on System and Engagement Reviews When a Report With a Peer Review Rating of *Pass With Deficiency* or *Fail* Is Issued**

**96m-1 Question**—Paragraphs .96(m) and .122(m) of the standards instruct a team captain in a System Review (or review captain on an Engagement Review) to include, for reports with a peer review rating of *pass with deficiency(ies)* or *fail*, descriptions (systemically written, in a System Review) of the deficiencies or significant deficiencies and the reviewing firm's recommendations. What is the treatment of FFCs, if any, when these reports are issued, and how are deficiencies treated for reports with a peer review rating of fail?

*Interpretation*—Any findings that are only raised to the level of an FFC remain in an FFC and are not included in a report with a peer review rating of *pass with deficiency* or *fail*.<sup>1</sup>

A *significant deficiency* in a System Review is one or more *deficiencies* that the peer reviewer has concluded results from a condition in the reviewed firm's system of

<sup>1</sup> Previously, when a determination was made to issue an adverse report, then any matters that ordinarily would have only been included in a letter of comment were placed in the adverse report and no letter of comment was issued.

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quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such *deficiencies* are communicated in a report with a peer rating of *fail*. Therefore, this is a systemic approach to determining whether the *deficiencies* identified meet this *significant deficiency* threshold. If they do, then a report with a peer review rating of *fail* is issued and *all* of the *deficiencies* are considered *significant deficiencies* and are identified as such. Such a report would not have a section with "Significant Deficiencies" and another section for "Deficiencies," as they would all be categorized as *Significant Deficiencies*.

A *significant deficiency* on an Engagement Review exists when the review captain concludes that *deficiencies* are evident on all of the engagements submitted for review ~~(with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of *pass with deficiencies*)~~. Such *deficiencies* are communicated in a report with a peer review rating of *fail*. Therefore, on an Engagement Review, all of the engagements reviewed are considered concerning whether *deficiencies* were noted when determining if the *significant deficiency* threshold is met. If they do, then a report with a peer review rating with *fail* is issued and *all* of the *deficiencies* are considered *significant deficiencies* and are identified as such. Such a report would not have a section with "Significant Deficiencies" and another section for "Deficiencies," as they would all be categorized as *Significant Deficiencies*.

## Section 3100 Supplemental Guidance

### Impact on Peer Review Results and Reporting

#### Impact on the Peer Review When Firm or Individual(s) Do Not Possess Licenses

**Firm Licenses:** For System and Engagement Reviews, when a reviewer identifies that a firm does not possess the required applicable license(s) to issue accounting and auditing engagements, for any period of time covered by the peer review year, a Finding for Further Consideration (FFC) must indicate this fact.

On all peer reviews, the administering entity's peer review committee (committee) must require an implementation plan that the firm submits a valid license(s) to the committee. If the reviewed firm obtains a valid license(s) prior to the committee requesting the implementation plan, they should immediately submit the license to the committee. In this situation, the committee will be able to consider the review without the need to request an implementation plan because the reviewed firm will have already obtained a valid license(s). The firm's license number should not be identified on the peer review documents and the information obtained should not be reported directly to the state board because it was obtained as a part of the peer review.

Firms in states with retroactive license provisions must apply the preceding rules even though the firm has the opportunity to obtain a valid license.

**Individual License(s):** For System and Engagement Reviews, engagements should be classified as not complying with professional standards if the partners or other

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employees with reporting responsibilities do not have a current individual license to practice public accounting as required by the state board(s) of accountancy.

The presence of an engagement not complying with professional standards identified in a System Review does not automatically result in a *pass with deficiency* or *fail* report. For System Reviews, reviewers must consider the nature, causes, pattern, pervasiveness, and relative importance to the system of quality control, including the lack of an individual license, in determining the systemic failure in the firm's system of quality control.

For Engagement Reviews, if a reviewer reviews an engagement that was issued when the individual did not possess the required license to practice, it is a deficiency, and a report with a rating of *pass with deficiency* should be issued. Consistent with the guidance for determining the nature of the peer review to issue in an Engagement Review, if deficiencies are not evident on all of the engagements submitted for review, ~~or the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies,~~ a *pass with deficiency* report should be issued. However, when the reviewer otherwise concludes that deficiencies are evident on all of the engagements submitted for review, a *fail* report is issued.

## Section 3300 RAB Handbook

### Chapter 2: Technical Reviewer Qualifications and Responsibilities

#### Exhibit 2-3: Engagement Review Technical Reviewer's Checklist

4. Scan the review documents:
  - a. Were the required questionnaires, checklists, and forms current, and do they appear to have been completed in a professional manner?
  - b. Based on the summarized information showing the number of engagements and the nature of services provided, do the engagements selected for review conform to the standards?
  - c. If the exact same deficiency was evident on all the reviewed engagements, was a peer review report with a rating of ~~pass with deficiency~~ **fail** issued?

### Chapter 5: Objectives, Engagement Selection Process, Evaluation, and Acceptance of an Engagement Review

#### III. Actual Review and Evaluation of Engagements and Other Documents

- D. Process of Identifying Matters, Findings, Deficiencies, and Significant Deficiencies
  1. A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports, and the adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review

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questionnaire(s). A matter is documented on a Matter for Further Consideration (MFC) form (sec. 1000 par. .110a).

For each matter, the review captain must determine if they should be elevated to a “finding” as discussed in (2) in the following text. A similar process follows for determining whether findings will be evaluated to a “deficiency” or possibly a “significant deficiency.”

2. A *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant’s reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of pass is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form (sec. 1000 par. .110b).
3. A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information and/or related accountant’s reports or represents omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, ~~or when the exact same deficiency occurs on each of the engagements submitted for review, and there are no other deficiencies,~~ such deficiencies are communicated in a report with a peer review rating of pass with deficiencies (sec. 1000 par. .110c).
4. A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review ~~(with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of pass with deficiencies).~~ When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of fail (sec. 1000 par. .110d).

#### F. Examples of Deficiencies

1. Professional judgment should be used in determining whether findings become a deficiency on a particular engagement. This becomes more difficult when trying to assess matters that individually might not be elevated to a deficiency but, in aggregate, might be.
2. There are many types of findings that review captains may identify. See section 6200 paragraph .52 for a list of common areas of noncompliance with applicable professional standards. A report with a peer review rating of pass with deficiencies is issued when at least one, but not all, of the engagements submitted for review contain a deficiency.

~~However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of pass with deficiency should be issued rather than with a peer review rating of fail. In the event of a scope limitation, a report with a peer review rating of pass with deficiencies (with a scope limitation) is issued.~~

#### IV. Types and Consideration of Reports to Issue in an Engagement Review

##### B. Report Rating—Pass with Deficiencies

A report with a peer review rating of pass with deficiencies is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards. A report with a peer review rating of pass with deficiencies is issued when at least one, but not all, of the engagements submitted for review contain a deficiency. ~~However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of pass with deficiency should be issued rather than with a peer review rating of fail. In the event of a scope limitation, a report with a peer review rating of pass with deficiencies (with a scope limitation) is issued (sec. 1000 par. .118).~~

- ~~—Circumstances that ordinarily would support the issuance of a report with rating of pass with deficiencies include instances when~~
- ~~• at least one, but not all, of the engagements submitted for review contain a deficiency.~~
  - ~~• more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies.~~

##### C. Report Rating—Fail

A report with a peer review rating of fail is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of fail is issued when deficiencies are evident

on all of the engagements submitted for review. ~~However, a report with a peer review rating of pass with deficiency should be issued when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies. 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. In the event of a scope limitation, a report with a peer review rating of fail (with a scope limitation) is issued (sec. 1000 par. .119).~~

~~Circumstances that ordinarily would support the issuance of a report with rating of fail would include instances in which the reviewer determines deficiencies are evident on all of the engagements submitted for review (with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of pass with deficiencies).~~

## **Exhibit 5-1a**

### **Aggregation and Evaluation of Matters on a Single Engagement in an Engagement Review**

#### **EXAMPLE 2**

#### **Sole practitioner who only performs 12 omit disclosure compilation engagements for the same client.**

The review captain selected two engagements to review: an interim and year-end compilation, and the only matters identified were that on each engagement, the accountant's report did not note that management elected to omit substantially all disclosures.

#### **Review Captain's Evaluation of the Two Engagements Reviewed**

The review captain determined that based on the definition of a deficiency (and the guidance provided by the board on this particular departure from professional standards that each engagement would be deemed as having a deficiency. Accordingly, the DMFC should indicate that each MFC was addressed in the report's deficiency.

#### **In determining the type of report to issue on an Engagement Review**

The review captain understood that a report with a rating of pass is not permitted in an Engagement Review where a deficiency is identified on any Engagement Reviewed. Ordinarily when each ~~e~~Engagement Reviewed ~~reviewed~~ has a deficiency, a report with a rating of fail is appropriate. ~~However, when more than one engagement has been submitted for review and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a rating of pass with deficiencies is appropriate. So in this firm's review, where each engagement had a deficiency, a report with a rating of pass with~~

deficiencies fail is appropriate because even though the deficiencies were identical, and there were no others.

### **EXAMPLE 3**

**Two partners, where one performs 12 omit disclosure compilation engagements for the same client, and the other performs 1 omit disclosure compilation engagement.**

The review captain selected two engagements to review: an interim compilation from the first partner and second partner's only compilation. The only matters identified were that on each engagement, the accountant's report did not note that management elected to omit substantially all disclosures, and on one engagement, the applicable financial reporting framework was not disclosed in the accountant's report or financial statements and was not easily determinable.

#### **Review Captain's Evaluation of the Two Engagements Reviewed**

The review captain determined that based on the definition of a deficiency (and the guidance provided by the board) on these particular departures from professional standards that each engagement would be deemed as having a deficiency. Accordingly, the DMFC should indicate that each MFC was addressed in the report's deficiency).

#### **In determining the type of report to issue on an Engagement Review**

The review captain understood that a report with a rating of pass is not permitted in an Engagement Review, where a deficiency is identified on any of its engagements reviewed. Ordinarily, when each Engagement Reviewed has a deficiency, a report with a rating of fail is appropriate.

In this review, there is a deficiency on one engagement related to the applicable financial reporting framework issue. In addition, each engagement also had a deficiency related to the accountant's reports, not noting that management elected to omit substantially all disclosures.

Therefore, the review captain appropriately concluded that a report with a rating of fail should be issued.

~~The review captain considered the exception to the rule of issuing a report with a report rating of fail when each engagement has an identical deficiency but understood it was NOT the situation presented. When more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a rating of pass with deficiencies is appropriate. Because there were other deficiencies in this review, the exception was not applicable.~~

Furthermore, the report should identify the deficiencies (or deficiency, if the matters are combined) as significant deficiencies. The only time there will be significant deficiencies on an Engagement Review is AFTER the determination is made that a

report with a rating of fail is issued. Then, all of the deficiencies are referred to as *significant deficiencies*.

## Section 6200 – Instructions to Reviewers Performing Engagement Reviews

### Performing the Review

.25 Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, FFC, and Disposition of Matter for Further Consideration, forms) described as follows to document these items, are intended to assist in determining the nature of the peer review report to issue:

- a. A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, related accountant's reports, and adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A matter is documented on an MFC form.
- b. A *finding* is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, then a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on an FFC form.
- c. A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports, or both, or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, ~~or when the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies,~~ such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- d. A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review ~~(with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of *pass with deficiencies*).~~ When a



significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.

## General Guidelines for Writing Reports

.36A report with a peer review rating of *pass with deficiencies* is issued when at least one but not all of the engagements submitted for review contain a deficiency. ~~However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of *pass with deficiency* should be issued rather than a peer review rating of *fail*.~~

## Guidance for Writing Deficiencies (and Significant Deficiencies) Included in Engagement Review Reports

### Definition of Deficiencies and Significant Deficiencies on an Engagement Review

.38A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports, or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. ~~When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, or when the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies,~~ such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.

.39A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review ~~(with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of *pass with deficiencies*).~~ When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.

## Section 6300 – Review Captain Summary

(to be applied to excel file as well)

### III. Performing the Review:

9. Determine the relative importance of matters (see Standards paragraphs .110-.111)

- A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information and/or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.:
  - When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, ~~or when the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies,~~ such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review ~~(with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which ordinarily would result in a report with a peer review rating of *pass with deficiencies*):~~
  - When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.

11. Form conclusions on the type of report to issue (see Standards paragraphs .117–.119):

- A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.
  - The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards.
  - A report with a peer review rating of *pass with deficiencies* is issued when at least one, but not all, of the engagements submitted for review contain a deficiency.
  - ~~However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of *pass with deficiency* should be issued rather than with a peer review rating of *fail*.~~
  - In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.

- 
- A report with a peer review rating of *fail* is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.
    - A report with a peer review rating of *fail* is issued when deficiencies are evident on all of the engagements submitted for review.
    - ~~A report with a peer review rating of pass with deficiency should be issued when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies.~~
    - 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.
    - In the event of a scope limitation, a report with a peer review rating of fail (with a scope limitation) is issued.

**Revision to Peer Review Guidance for Engagement Reviews**

On May 20, 2014, the Peer Review Board (Board) issued the [Engagement Review Reports: Pass with Deficiencies vs. Fail Exposure Draft](#) proposing for firms that perform more than one engagement, and the same deficiency is identified on each engagement, a fail report should be received. This change was proposed to address the inconsistencies in report ratings for firms that perform one engagement vs. multiple with deficiencies identified on each, as well as improve the transparency of reports.

The Board considered the concerns raised by the peer review community about the inconsistencies created by the current guidance and the feedback received on the proposed guidance. The Board has adopted the proposed guidance. The change is effective for peer reviews with a report date on or after January 1, 2015.

## Section 6200 – Instructions to Reviewers Performing Engagement Reviews

### Appendix E

#### Areas of Common Noncompliance With Applicable Professional Standards

The following is a list of noteworthy areas of common noncompliance with applicable professional standards. This is not an all-inclusive list, and the reviewer must decide if the noncompliance is a matter, finding, deficiency, or significant deficiency by using the following guidance.

On an Engagement Review, as with System Reviews, determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. The following list provides examples of instances of noncompliance with professional standards. A *finding* is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, then a report rating of *pass* is appropriate. See section 1000, *Standards for Performing and Reporting on Peer Reviews*, paragraphs .110–.115.

#### 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 appropriate 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 reflected financial statement titles and terminology not in accordance with professional standards.
- Failure to explain the degree of responsibility the accountant is taking with respect to supplementary information.

##### Financial Statement Measurement

- Particular types of revenues and expenses not presented and disclosed in accordance with 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.
- Reviewed financial statement presentation inappropriate for the type of nonprofit organization being reported.

- Compiled financial statements prepared using a special purpose framework<sup>1</sup> 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 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, concentrations of credit risk, and so on).
- 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.
- Failure to refer to the accountant's report on each page of the financial statements or financial statements inconsistently titled with the applicable reports.

### **SSARS Procedures (Including Documentation)**

- The engagement letter on a management use only compilation engagement did not refer to supplementary information, which was presented along with the basic financial statements.
- 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 SSARS 19.

### **List of Matters and Findings That Generally Would Result in a Deficiency or Significant 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.<sup>2</sup>
- Failure to disclose the lack of independence in a compilation report.
- Failure to appropriately qualify a report for a scope limitation or significant departure from the basis of accounting used for the financial statements.
- The accountant's report does not contain the critical elements of the applicable standards.
- Failure to disclose, in the accountant's report, significant departures from professional standards (examples include omission of significant income tax provision 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).
- The accountant's report does not indicate the periods covered by the report and they cannot be determined from reading the financial statements.

<sup>1</sup> The cash, tax, regulatory, and other bases of accounting that utilize a definite set of logical, reasonable criteria that are applied to all material items appearing in financial statements are commonly referred to as other comprehensive bases of accounting.

<sup>2</sup> See footnote 1.

- 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, only provides 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.
- Failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (if applicable) required by the applicable financial reporting framework.

### **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 inappropriate method of revenue recognition.

### **Presentation and Disclosure**

- Disclosure of omission of substantially all disclosures (in a compilation without disclosures) in fact when 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<sup>3</sup> and the basis of accounting is not readily determinable from reading the accountant's compilation report.
- Significant departures from the financial statement formats prescribed by industry accounting and audit guides.
- Omission of the disclosure(s) related to significant accounting policies applied (GAAP or special purpose framework).<sup>4</sup>
- 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 statement(s) that is (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.

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<sup>3</sup> See footnote 1.

<sup>4</sup> See footnote 1.

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### **SSARS 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 analytical and inquiry procedures and failure to adequately document the procedures.
- For review engagements, failure to document the matters covered in the accountant's inquiry and analytical procedures.
- For review engagements, failure to document significant unusual matters and their disposition.
- For review engagements, failure to obtain a client management representation letter.
- Engagement letters on management use only compilation engagements that omit the required descriptions or statements documenting the understanding with the client.



**Preparation of Financial Statements Performed under SSARS and the impact on the Scope of Peer Review**

**Why is this on the Agenda?**

On October 23, 2013, the Accounting and Review Services Committee (ARSC) issued an exposure draft titled “Proposed Statements on Standards for Accounting and Review Services (SSARS): Preparation of Financial Statements, Compilation Engagements, and Association With Financial Statements.” These proposed standards were developed in part to help determine whether the accountant, management or both prepared an entity’s financial statements. In order to address this issue, ARSC determined to revise the applicability of the compilation standards, so that those standards only apply when the accountant is engaged to perform a compilation engagement. Additionally, the preparation standards would only apply when the accountant is engaged to prepare an entity’s financial statements. (Subsequent to the issuance of its exposure draft, ARSC withdrew its proposal related to “Association With Financial Statements”.)

The proposed SSARS Preparation of Financial Statements would be effective for the preparation of financial statements for periods ending on or after December 15, 2015 with early implementation permitted. While the comment period for the exposure draft has concluded, the ARSC is still currently working to finalize this preparation standard. However, no significant changes are expected to be made to the requirements included in the initial exposed version of the Standard (e.g. reporting requirements or the engagement letter requirements).

We have considered the ARSC exposure draft, comments on the exposure draft, state board implications, and other factors in order to determine how preparation services should be addressed within the peer review standards. In this regard, we are proposing that the standards should be modified to indicate that preparation services would be excluded from requiring enrollment in peer review as well as from the scope of peer reviews of firms that are enrolled. As the proposal would modify the existing Standards, an exposure draft has been attached for review and approval. Refer to Agenda Item 1.3B for the exposure draft.

**Feedback Received**

- On June 9, 2014, a conference call was held with Technical Reviewers Advisory Task Force (TRATF) to discuss the proposed revisions to the Standards. Certain members were in agreement with the proposal, while other members felt the services should require enrollment and be included in scope.
- On June 9, 2014, Staff discussed the proposed revisions with the Staff liaison to ARSC. He did not indicate any issues with how preparation services are described in the proposal.
- On June 19, 2014 a conference call was held with Administrators Advisory Task Force (AATF) to discuss the proposed revisions to the Standards. Members of the AATF did not have significant issues with the proposal.

**PRISM/Technology Impact**

No changes to PRISM will be necessary.

**AE Impact**

None.

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**Communications Plan**

Refer to Agenda Item 1.3A for the Peer Review Alert to be issued in August of 2014. The Exposure Draft will also be posted to the Peer Review Home page on [www.aicpa.org](http://www.aicpa.org) during that time. Communication of the exposure draft will also be made through several other AICPA channels.

**Manual Production Cycle (estimated)**

If the proposals in the exposure draft are approved, the updated guidance would be included in the January 2015 manual.

**Effective Date**

Final revisions to the Standards will be effective upon approval by the Board.

**Board Consideration**

- Discuss and approve Agenda Item 1.3A and 1.3B.

**Peer Review Alert  
ARSC Exposure Draft**

The Peer Review Board has issued an Exposure Draft [<link>](#) that proposes the exclusion of preparation services performed under SSARS from the scope of peer reviews for enrolled firms. Additionally, firms would not be required to enroll in the peer review program if their highest level of service is preparation services performed under SSARS. Paragraph .06 of the Standards currently indicates “an accounting and auditing practice for the purposes of these Standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm’s accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).” If no revisions to this paragraph were made, a firm issuing a disclaimer report for their preparation service engagements performed under SSARS would be required to enroll in the Program.

The Peer Review Board has considered the Preparation of Financial Statements SSARS, comments on the initial exposure draft for these standards, state board implications, and other factors in concluding that preparation services should be excluded from the scope of peer reviews of enrolled firms. In addition, the performance of preparation services under SSARS would not require a firm to enroll in the peer review program.

Comments and responses about the Exposure Draft should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by October 31, 2014. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by October 31, 2014.

The Board will consider the proposed changes and the comments received during open session on January 28, 2015. The proposed changes, if approved, will be effective upon approval.

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# **EXPOSURE DRAFT**

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

**Preparation of Financial Statements Performed under SSARS and the  
impact on the Scope of Peer Review**

**August 19, 2014**

**Comments are requested by October 31, 2014**

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

**Comments should be received by October 31, 2014 and addressed to  
Tim Kindem, Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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New York, NY 10036-8775

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August 19, 2014

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

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by October 31, 2014. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by October 31, 2014.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after November 1, 2014 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards* and Interpretations, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* and Interpretations to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* and Interpretations are struck through, and new items are underlined). The Board is not required to expose changes to the Peer Review *Standards* Interpretations, but elected to do so to assist respondents with understanding the underlying intent of the proposed revisions to the *Standards*.

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

Sincerely,

[Insert Rick's Signature]

Richard W. Reeder  
Chair  
AICPA Peer Review Board

**AICPA Peer Review Board  
2013 – 2014**

Richard W. Reeder, Chair\*  
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Michael Fawley  
Anita Ford\*  
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*\*Member—Standards Task Force*

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Senior Technical Manager  
AICPA Peer Review Program

Frances McClintock  
Senior Technical Manager  
AICPA Peer Review Program

Tim Kindem  
Technical Manager  
AICPA Peer Review Program



# Explanatory Memorandum

## Introduction

This memorandum provides background to the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews* (Standards) issued by the AICPA Peer Review Board (Board). The proposed changes would result in preparation services performed under the *Statements on Standards for Accounting and Review Services* (SSARS) being excluded from both the scope of peer review and the definition of an accounting and auditing practice for the purposes of these standards. This memorandum supports the exclusion of preparation services from the scope of peer review and solicits input on the proposal from all interested parties.

## Background

On October 23, 2013, the Accounting and Review Services Committee (ARSC) issued an exposure draft titled “*Proposed Statements on Standards for Accounting and Review Services (SSARS): Preparation of Financial Statements, Compilation Engagements, and Association With Financial Statements.*” These proposed standards were developed in part to help determine whether the accountant, management or both prepared an entity’s financial statements. In order to address this issue, ARSC decided to revise the applicability of the compilation standards, so that those standards only apply when the accountant is engaged to perform a compilation engagement. Additionally, the preparation standards only apply when the accountant is engaged to prepare an entity’s financial statements. Subsequent to the issuance of its exposure draft, ARSC withdrew its proposal related to “Association With Financial Statements”. Therefore the Board’s exposure draft only considers the standards proposed related to the preparation of financial statements. The following link contains the aforementioned exposure draft and explains preparation services in detail:

[http://www.aicpa.org/Research/ExposureDrafts/CompilationReview/DownloadableDocuments/20131023a\\_SSARS\\_ED\\_Prep\\_Comp\\_Assoc.pdf](http://www.aicpa.org/Research/ExposureDrafts/CompilationReview/DownloadableDocuments/20131023a_SSARS_ED_Prep_Comp_Assoc.pdf)

## **Summary – ARSC’s Proposed *Statement on Standards for Accounting and Review Services - Preparation of Financial Statements***

The preparation of financial statements is a non-attest service and does not require the accountant to determine whether the accountant is independent of the entity. Additionally, the accountant is not required to verify the accuracy or completeness of the information provided by management, gather evidence to express an opinion or a conclusion on the financial statements, or otherwise report on the financial statements.

This proposed standard would apply when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review or a compilation on those financial statements. A report would not be required – even when financial statements are expected to

be used by or presented to a third party. Instead, the accountant would be required to include a legend on each page of the financial statements stating that no assurance is being provided. However, in the rare circumstance the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer (report) on the financial statements.

The proposed SSARS also require that the accountant obtain an engagement letter signed by both the accountant and the client's management. Like other non-attest bookkeeping/accounting services engagements, the accountant would not be required to consider whether he or she is independent. The proposed standard can be applied to financial statements with or without disclosures.

The accountant should prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:

- a. The engagement letter or other suitable form of written documentation with management
- b. A copy of the financial statements that the accountant prepared

The proposed SSARS *Preparation of Financial Statements* would be effective for the preparation of financial statements for periods ending on or after December 15, 2015 with early implementation permitted. ARSC is currently working to finalize the preparation standard. However, no significant changes are expected to be made to the legend, disclaimer report or the engagement letter.

### **Exclusion of Preparation Services from the Scope of Peer Review**

The Board has considered the ARSC exposure draft, comments on the exposure draft, state board of accountancy (SBOA) implications, and other reasons (described further below) in concluding that preparation services should be excluded from requiring enrollment in peer review and the scope of peer review.

AICPA bylaws state that firms (or individuals in certain situations) are only required to enroll in the AICPA peer review program (Program) if they perform services that are within the scope of the AICPA's peer review standards and issue reports purporting to be in accordance with AICPA Professional Standards.

Paragraph 6 of the Standards currently indicates "an *accounting and auditing practice* for the purposes of these Standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)\*; Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).

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

The Board has noted there are no procedures that can be performed to assess the quality of the report, financial statements, or disclosures as in other engagements currently included within the scope of peer review.

If preparation services were within the scope of and selected in a peer review, the peer reviewer’s procedures would be limited to 1) determining that the “no assurance” legend is included on each page of the financial statements, 2) determining that a disclaimer report, if applicable, is issued, and 3) reviewing a properly signed engagement letter, which contains certain information required by SSARS.

The proposed SSARS does not require the financial statements to disclose the basis of accounting or related disclosures (or the omission of such disclosures). Accordingly, there are no procedures a reviewer can perform to determine the appropriate presentation of the financial statements.

The Board is concerned that, if preparation services are included in the scope of peer review, a user of financial statements prepared under the new SSARS service would inappropriately place reliance on the financial statements. Therefore, the Board does not believe including preparation services in peer review is in the public interest and believes the Standards should be revised to explicitly exclude such services from the scope of peer review.

## **Comment Period**

The comment period for this exposure draft ends on October 31, 2014.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA’s website after November 1, 2014, for a period of one year.

## **Explanation of Proposed Changes**

### **Revisions to *Standards***

The proposed changes include revisions to:

- Footnote 4 to Paragraph .06 to indicate that preparation services performed under SSARS are excluded from the scope of peer review and the definition of an accounting and auditing practice for the purposes of these standards.
- Paragraph .07 to indicate that engagements performed under the *Preparation of Financial Statements* standards, are excluded from the scope of the AICPA peer review program.

## Revisions to Interpretations

The proposed changes include revisions to:

- Interpretation 7-2 to specifically mention that firms only performing compilations and/or reviews under SSARS or services under the SSAEs not included in System Reviews have peer reviews called Engagement Reviews. Preparation services would not be subject to the AICPA peer review program.

## Guide for Respondents

The Board welcomes feedback from all interested parties on this proposal which would completely exclude preparation services (including those with disclaimer reports) from requiring enrollment in peer review. In addition, for firms enrolled in peer review because they perform other services/ issue reports included in the scope of peer review, preparation services would not be included in the scope of services included in the peer review.

1) Do you agree with this position? Please explain why you agree or disagree.

2) The Board is interested in receiving feedback as to whether any SBOAs plan to require peer review for firms performing “services under SSARS”, “issuing reports under SSARS” or any peer review requirements for engagements under SSARS that are not reviews or compilations. The Board would appreciate the applicable statute/regulation citations for any such requirements.

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

Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by October 31, 2014. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by October 31, 2014.

## Effective Date

Final revisions to the *Standards* will be effective upon approval by the Board.

# Proposed Revisions

## Peer Review Standards

### Overview

**.06** An *accounting and auditing practice* for the purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)<sup>4</sup>; Statements on Standards for Attestation Engagements (SSAEs); *Government Auditing Standards* (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).

<sup>4</sup> Statements on Standards for Accounting and Review Services that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes (see interpretations). Preparation services performed under SSARS are excluded from the scope of peer review and the definition of an accounting and auditing practice for the purposes of these standards.

**.07** The objectives of the program are achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform engagements under the SASs or Government Auditing Standards, examinations under the SSAEs, or engagements under PCAOB standards, as their highest level of service have peer reviews called System Reviews. A System Review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS No. 8, in all material respects. Firms that only perform services under SSARS or services under the SSAEs not included in System Reviews are eligible to have peer reviews called Engagement Reviews<sup>5</sup> (see interpretations). These standards are not intended for and exclude the review of the firm's accounting and auditing practice applicable to engagements subject to PCAOB permanent inspection and engagements performed under the *Preparation of Financial Statements* standards, which are excluded from the scope of the program (see interpretations). Firms that do not provide any of the services listed in paragraph 6 are not peer reviewed (see interpretations).

## Peer Review Interpretations

### Engagements Under Peer Review

**7-2** Question—Paragraph .07 of the standards indicates that firms that perform engagements that are not subject to PCAOB permanent inspection under the SASs or Government Auditing Standards, examinations under the SSAEs, or engagements under PCAOB standards have peer reviews called System Reviews. Firms that only perform compilation and/or reviews services under SSARS or services under the SSAEs not included in System Reviews have peer reviews called Engagement Reviews. Is the System Review or Engagement Review determination based on the types of engagements a firm performs as its highest level of service?

Interpretation—Yes. The type of peer review determination is based on the engagements performed as its highest level of service.

*(Reader's Note: As this interpretation's subsequent table was not modified, it has not been included in this exposure draft)*

## Revised Materials Related to Ensuring Population Completeness

### Why is this on the Agenda?

The Population Completeness Task Force (PCTF) has recommended several revisions to materials within the Peer Review Program Manual (PRPM) to address the objectives of the Population Completeness initiative. The revisions include changes to the Instructions to Firms Having System Reviews and Engagement Reviews, Quality Control Policies and Procedures (QCPP) Questionnaires, Instructions to Reviewers Performing System Reviews, and the Technical Reviewer's Checklist for System Reviews. The revisions to the practice aids include the following:

- Instructions to Firms and Reviewers revised to reflect the elements included in the revised representation letter and noncooperation procedures that were approved by the PRB in January 2014. The Instructions also emphasize that a responsible individual should provide or ensure the completeness of the engagement information provided for the peer review.
- Instructions to Reviewers were revised to include evaluation of firm's methodology for determining completeness and also refer the reviewer to the guidance when an engagement within scope is not yet complete and issued.
- The QCPP (Monitoring element) revised to ask the firm to describe its methodology for determining the completeness of their engagement population for ongoing internal monitoring and also for the peer review. The Guidelines for Review of QCPP ask the reviewer to evaluate the firm's methodology and determine if it is appropriate.
- The Technical Reviewer's checklist was revised to explicitly indicate that the technical reviewer should ensure that if a must select category is indicated on the firm's Background information form, that the category is addressed in the peer review (risk assessment and engagement statistics).

In addition to the practice aid changes, additional communications are expected to be disseminated to firms in the near future to further emphasize the Population Completeness initiative. Those communications are not included in this agenda item.

### Feedback Received

PCTF reviewed proposed changes to the Instruction to Firms practice aids and made additional recommendations which are reflected in the materials in this agenda item.

### PRISM Impact

None

### AE Impact

AEs will need to provide their technical reviewers with an updated standalone Technical Reviewer's checklist which will be available on SharePoint.

### Communications Plan

The proposed changes to the practice aids are not significant to warrant a specific peer review alert upon approval. However, they will be included in the communication about overall changes to the next edition of the PRPM.

### Manual Production Cycle (estimated)

Revised practice aids will be included in the January 2015 PRPM.

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**Effective Date**

For reviews commencing after January 1, 2015.

**Board Consideration**

Review and approve changes to the practice aids:

- PRP 3300 Exhibit 2-2 Technical Reviewer's Checklist- System Reviews (Agenda Item 1.4A)
- PRP 4100 Instructions to Firms Having a System Review (Agenda Item 1.4B)
- PRP 4200 Instructions to Reviewers Performing System Reviews (Agenda Item 1.4C)
- PRP 6100 Instructions to Firms Having an Engagement Review (Agenda item 1.4D)
  
- Specific changes proposed in the following documents are summarized in Agenda Item 1.4E:
  - PRP 4300 QCPP (no personnel)
  - PRP 4400 QCPP (2 or more personnel)
  - PRP 4500 Guidelines for Review of QCPP (no personnel)
  - PRP 4600 Guidelines for Review of QCPP ( 2 or more personnel)



**Exhibit 2-2**  
**AICPA PEER REVIEW PROGRAM**  
**SYSTEM REVIEW**  
**TECHNICAL REVIEWER’S CHECKLIST**

|  |  |
|--|--|
| Name of Reviewed Firm _____                      | Review Number _____                      |
| Team Captain _____                               | Date Report Submitted <sup>2</sup> _____ |
| Name of Technical Reviewer _____                 | Date of Technical Review _____           |
| Rating of Firm’s Current Report _____            | Current Year-End _____                   |
| Rating <sup>1</sup> of Firm’s Prior Report _____ | Prior Year-End _____                     |

**SUGGESTED REVIEW PROCEDURES**

|  | <i>Yes</i>               | <i>No</i>                | <i>N/A</i>               | <i>Comments</i> |
|--|--------------------------|--------------------------|--------------------------|-----------------|
| 1. Read the summary review memorandum (SRM), the report, and the letter of response (LOR), if applicable.  |                          |                          |                          |                 |
| a. Does the SRM appear to have been properly completed?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |                 |
| b. Does the SRM discussion of inherent and control risk factors and detection risk conclusions show an appropriate risk assessment was made and documented?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |                 |
| c. Based on the documented risk assessment, was a reasonable cross-section of the firm’s practice selected for review? The scope of engagements should consider “must select” engagements, industry concentrations, and other significant and/or high risk areas of the firm’s practice as well as other areas identified during the review. <u>Consider if a “must select” category is indicated on the Information Required for Scheduling (Background Information) Form but is not addressed in the risk assessment or engagement statistics.</u> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |                 |
| d. Was the surprise engagement selected according to the standards and other related guidance?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |                 |
| e. Does the SRM discuss engagements which were not performed or reported in conformity with applicable professional standards in all material respects?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |                 |
| f. If the answer to 1e is “yes,” does the related documentation by the reviewer and reviewed firm appear to be appropriate?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |                 |
| g. Is the information in the SRM consistent with other peer review documents, especially the report, and FFCs, if any?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |                 |

<sup>1</sup> Or type of report for reviews commenced prior to January 1, 2009.

<sup>2</sup> Date team captain submitted report if a peer review rating of “pass” or “pass (with a scope limitation)” or date the firm submitted the report and letter of response if a peer review rating of “pass with deficiencies” or “fail.”

**SUGGESTED REVIEW PROCEDURES**

|   | <u>Yes</u>               | <u>No</u>                | <u>N/A</u>               | <u>Comments</u> |
|---|--------------------------|--------------------------|--------------------------|-----------------|
| h. Does the report conform in format and language with the standards and related guidance, including the identification of high risk engagements (if any)?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| i. Were there any deficiencies or significant deficiencies included in the report? (If “no,” skip to question 2)  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| (1) For any deficiencies or significant deficiencies included in the report, is the underlying systemic cause appropriately identified?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| (2) Is the level of service identified for any deficiencies or significant deficiencies? If the deficiencies or significant deficiencies are industry specific, is the industry identified?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| (3) Does the reviewer properly “close the loop” on the overall effect of engagement deficiencies?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| (4) Do the firm’s responses in the LOR, if any, appear to be comprehensive, genuine, and feasible?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| (5) Are any deficiencies or significant deficiencies repeated from the firm’s prior review(s) and, if so, is that fact properly noted?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| (6) If the answer to the previous question is “yes,” is the firm’s current response different from its prior response?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| (7) Considering the firm’s responses, should corrective or monitoring action(s) be recommended to remedy the repeated deficiency?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| 2. a. If the administrative checklist indicates that the firm performs engagement(s) subject to A-133, did the engagement(s) reviewed include an A-133 engagement?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| b. Has attachment 2 of this checklist been completed for A-133 engagement(s)? Please indicate if attachment 2 was completed by a technical reviewer or a report acceptance body (RAB) member.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| 3. Review information in the administrative file. Does it appear that requests for scope limitation waivers, due date extensions, peer review year-end changes, and other matters have been properly considered and documented?           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| 4. Review Matter for Further Consideration (MFC) forms, the Disposition of MFC (DMFC) form, and Finding for Further Consideration (FFC) forms, for completeness and, in light of the matters and findings, the reviewed firm’s responses. |                          |                          |                          |                 |
| a. Does the DMFC form provide a trail of the disposition of all MFCs, including appropriate explanations, if applicable?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| b. Do the matters appear to have been given appropriate consideration in the preparation of the report and FFCs?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| c. If a matter was deemed “isolated,” did the reviewer appropriately document that determination?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |

**SUGGESTED REVIEW PROCEDURES**

|  | <i>Yes</i>               | <i>No</i>                | <i>N/A</i>               | <i>Comments</i> |
|--|--------------------------|--------------------------|--------------------------|-----------------|
| d. Do the reviewer’s conclusions and recommendations on the matters (design and compliance) appear proper?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| e. Is the MFC written such that specific reviewer, client, or firm names cannot be identified based on the descriptions provided? If not, request the MFC to be revised.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| f. If the reviewed firm did not complete the MFC electronically,   |                          |                          |                          |                 |
| • was the hard copy submitted with the peer review working papers?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| • was the hard copy completed in its entirety and signed by an appropriate reviewed firm representative (managing partner or peer review contact)?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| • does the information on the hard copy MFC match the information entered into PRISM by the reviewer?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| g. Do the firm’s FFC responses appear appropriate and responsive? Do the responses include a description of how the planned action will be implemented, the person(s) responsible for implementation, the timing of the implementation, and, if applicable, additional procedures to ensure the finding is not repeated in the future? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| 5. Were the required checklists and forms current, and do they appear to have been completed in a professional manner?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| 6. Do you think the review should be considered for oversight?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| 7. Have you completed attachment 1, including ensuring the major and minor report codes and engagement statistics prepared by the team captain are correct?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |
| 8. Are there any contentious issues related to a specific industry or must select engagement which could impact the peer review results? If yes, indicate the industry and notify the peer review administrator.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____           |

**CONCLUSIONS:**

Based on your review of the report, the LOR (if applicable), FFCs (if applicable), and other review documents, do you conclude

- the report, LOR (if applicable), and FFCs (if applicable) should be accepted as submitted?  Yes  No

If no, please briefly describe the reasons why you believe the documents should not be accepted, including any changes that are needed. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- the reviewed firm should be asked to agree to certain corrective actions to correct the deficiencies or significant deficiencies noted in the report?  Yes  No  N/A

If yes, please briefly describe the actions you suggest the RAB consider. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- 
- 
3. the reviewed firm should be asked to complete an implementation plan in addition to or as an affirmation of the plan described in its response to the findings on the FFC forms?  Yes  No  N/A

If yes, please briefly describe the implementation plan you suggest the RAB consider. \_\_\_\_\_

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4. team captain feedback is recommended from the report acceptance body?  Yes  No

If yes, please describe. \_\_\_\_\_

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# PRP Section 4100

## *Instructions to Firms Having a System Review*

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## Introduction

**.01** The purpose of these instructions is to provide overall guidance to firms having System Reviews under the AICPA Peer Review Program (the program). Firms should be aware of their peer review responsibilities and requirements as discussed in section 1000, *Standards for Performing and Reporting on Peer Review*, with an emphasis on paragraphs .01–.19, as well as these instructions, and the quality control policies and procedures questionnaire and review guidelines. In addition, all individuals in the firm involved in the peer review should read and become familiar with the standards; section 2000, *Peer Review Standards Interpretations*; section 3000, *Other Guidance*; and materials relative to the aspect of the review that most directly affects their role in the firm. These individuals should be aware that peer review documents may need to be completed electronically by logging into their account on [www.aicpa.org](http://www.aicpa.org). If documents cannot be completed electronically, an alternative method acceptable to the AICPA can be used. These instructions should be used for reference on firm-on-firm reviews and reviews with association formed review teams.

**.02** A System Review is required for firms that perform engagements under the Statements on Auditing Standards (SASs), *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements performed under the Public Company Accounting Oversight Board (PCAOB) standards. Engagements subject to PCAOB permanent inspection are excluded from the program (see Interpretation 7-1).

**.03** A System Review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review,

- a. the reviewed firm’s system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA (see Statement on Quality Control Standards [SQCS] No. 8, *A Firm’s System of Quality Control (Redrafted)* (AICPA, *Professional Standards*, QC sec. 10).
- b. the reviewed firm’s quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

**.04** A System Review is designed to test a reasonable cross section of the firm’s engagements with a focus on high-risk engagements, in addition to significant risk areas where the possibility exists of engagements not being performed and/or reported on in conformity with applicable professional standards in all material respects. A System Review is not designed to test every engagement or compliance with every professional standard and every detailed component of the firm’s system of quality control.

**.05** A System Review also involves the review team obtaining a sufficient understanding of the reviewed firm’s system of quality control with respect to each of the quality control elements in SQCS No. 8 to plan the review. SQCS No. 8 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm (the “tone at the top”); relevant ethical requirements (such as independence, integrity, and objectivity); acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring. It also states that the nature, extent, and formality of a firm’s quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm’s size, the number of its offices, the degree of operating autonomy allowed to its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm’s practice, and appropriate cost-benefit considerations.

**.06** System Reviews are administered by state CPA societies and groups of state CPA societies, which elect to participate, and the AICPA Peer Review Board’s National Peer Review Committee and are approved by the AICPA Peer Review Board (the board) to administer the program. These groups are known as administering entities. Generally, the administering entity will contact the firm about six months before the due date of the firm’s review to begin to make arrangements for the review.

## Prior to the Review

**.07** Firms enrolled in the program are required to have a peer review once every three years. It is the responsibility of the firm to verify that the team captain is qualified to do the review. The firm and the team captain should agree on an appropriate date for the review to commence and the anticipated exit conference date. Ordinarily, the review should be performed within 3–5 months following the end of the year to be reviewed; and, in most circumstances, the year-end date should not change from one triennial review period to the next. Ordinarily, the peer review year is the 12 month period ending 6 months prior to the peer review due date. The peer review due date is 3 years and 6 months after the last peer review year end, or, in the initial year, is ordinarily 18 months after a firm enrolled or should have enrolled in the AICPA Peer Review Program. See paragraphs .13–.19 of section 1000 for timing of the reviews.

**.08** The terms and conditions of the peer review may be summarized in an engagement letter between the reviewed firm and the reviewing firm or association, if an association formed the review team.

**.09** A partner or manager of the firm should be designated as liaison to provide assistance to the review team and should be available throughout the review. The designated liaison should be someone that is knowledgeable about the nature of the firm’s practice and is accountable for providing complete and accurate information to the administering entity and the peer review team, including a complete listing of engagements within the peer review scope. Firms should be aware that failure to accurately represent its accounting and auditing practice, as defined by the AICPA Standards for Performing and Reporting on Peer Review will be deemed a matter of noncooperation with the program for which the firm will be subject to a hearing by the Peer Review Board to determine if the firm’s enrollment from the program should be terminated. If the firm’s enrollment is terminated for omission or misrepresentation of information relating to its accounting and auditing practice, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct.

**.10** A reviewed firm may have legitimate reasons for excluding an engagement or certain aspects of functional areas, from the scope of the peer review, for example, when an engagement or an employee’s personnel records are subject to pending litigation. In these situations, ordinarily the reviewed firm should notify the team captain in a timely manner and submit a written statement to the administering entity, ordinarily prior to the commencement of the review, indicating (a) it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process, (b) the reasons for the exclusion, and (c) that it is requesting a waiver for the exclusion.

**.11** Provide the following to the team captain as soon as possible:

- a. The quality control document effective for the peer review year, if any.
- b. In lieu of a quality control document effective for the peer review year, a completed “Quality Control Policies and Procedures Questionnaire” (sec. 4300 or 4400). (Sec. 4300 is for sole practitioners with no personnel and sec. 4400 is for firms with two or more personnel.) If the questionnaire was not effective for the peer review year, the firm should also provide the previously completed questionnaire(s) that were effective for the peer review year, if any. This could be the questionnaire completed for the firm’s last peer review, which the firm should be maintaining as documentation of its system of quality control. Under certain circumstances, the team captain may request that a firm complete this questionnaire (and attach the quality control document) even if it has a quality control document. For instance, this could be requested if the team captain’s consideration of the firm’s quality control document indicates that it may not adequately address all the required elements of a system of quality control in a level of detail appropriate to the firm. This could also be requested if the team captain’s consideration of the quality control document indicates that a summary of the document would assist the team captain’s review of it.
- c. Relevant manuals, checklists, partner resumes, and background information. If the team captain performed the firm’s previous review, he or she may be familiar with the firm and, as a result, may not request partner resumes or other nonessential information.
- d. A list of accounting and auditing engagements prepared in the format shown in appendix B (sec. 4100 par. .37) to these instructions or in another suitable manner as requested by the team captain. The list should include all engagements with periods ended during the year under review and covered by the definition of an accounting and auditing practice for peer review purposes, regardless of whether the engagement reports are issued. The firm should be prepared to describe its approach for ensuring a complete and accurate engagement listing for the firm’s ongoing monitoring procedures and for the peer review. **Note:** New for 2011, i If

the reviewed firm has clients with operations in foreign countries or commercial audits with special performance and reporting requirements such as those subject to *Government Auditing Standards*, the firm should identify those clients on the engagement listing. The listing should separately identify each engagement, level of service, and industry for each client. Firms should understand the following to avoid common errors:

- Limited scope benefit plan audits or other audits in which the firm disclaimed an opinion are considered audits performed under *Statements on Auditing Standards (SAS)* that should be included in the peer review scope.
- If the firm performs the financial audit for an entity, and also performs other services for the same entity (such as the employee benefit plan audit or agreed upon procedures engagement), each of the engagements must be separately identified on the listing provided for the peer reviewer.

- e. A list of the firm's personnel, showing name, position, and years of experience (i) with the firm and (ii) in total. This list may be abbreviated for small firms or if the team captain is familiar with the reviewed firm.
- f. A completed "Managing Partner/Chief Executive Office Interview Questionnaire" (sec. 4750). The objective of the interview is to assist the peer review team in gaining an understanding of the firm leadership's involvement with its system of quality control. The questionnaire is designed to facilitate the interview and help the review team gain an understanding of management's philosophy toward and support of the quality control initiatives in the firm that will be considered by the team captain in assessing inherent and control peer review risk. The questionnaire should be completed by the firm executive who sets the tone for the firm in connection with its accounting and auditing practice. It may be completed in advance of the interview to facilitate the interview process, in which case the team captain will review the responses with the firm. (See instructions to the form in section 4750.)
- g. Other information requested by the team captain.

**.12** Have available for the review team when they arrive at the firm's office (commencement date):

- a. The firm's documentation demonstrating compliance with its quality control policies and procedures for monitoring since the firm's last peer review
- b. All engagements for the year under review, including all applicable documentation required by professional standards and reports issued in connection with the engagements
- c. Latest independence representations from firm personnel (if required by the firm's policies and procedures)
- d. Documentation of all independence consultations, including the final resolution
- e. Documentation regarding the independence of any correspondent firms used during the year under review
- f. Personnel files to the extent requested by the team captain
- g. Continuing professional education (CPE) records for all personnel for the three most recent educational years
- h. Documentation regarding consultations with outside parties on accounting and auditing matters
- i. Any communications relating to allegations or investigations of deficiencies (including litigation) in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm since the firm's last peer review year end

**.13** The firm should provide a comfortable, adequate working area for the review team and, if necessary, assist in coordinating accommodations for the review team.

**.14** In addition to the managing partner or CEO interview, the review of the firm's quality control policies and procedures includes interviews of the reviewed firm's management and staff. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated. The review team may perform one-on-one staff interviews or, depending on the size of the firm, focus groups (see section 4700). The team captain will arrange for the scheduling of interviews with selected members of the firm's personnel. The firm should see that this schedule is communicated to the appropriate individuals and that they understand the importance and purpose of the interviews. The review team will endeavor to have these discussions and interviews with-



out disrupting the firm's operations.

**.15** The team captain will select certain engagements for review, and request the firm to prepare a profile sheet on each engagement selected. The initial selection of engagements to be reviewed should ordinarily be provided to the reviewed firm no earlier than three weeks prior to the commencement of the peer review procedures at the related practice office or location. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed will be provided to the firm once the review commences and not provided to the firm in advance. Careful and complete preparation of the profile sheets is important for the efficient performance of the peer review.

**.16** At least one of each of the following types of engagements is required to be selected for review in a System Review:

- a. **Governmental**—*Government Auditing Standards* (GAS, also known as the Yellow Book), 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.
- b. **Employee Benefit Plans**—Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).
- c. **Depository Institutions**—The 1993 Federal Deposit Insurance Corporation (FDIC) guidelines implementing the FDIC Improvement Act of 1991 (FDICIA) require auditors of federally insured depository institutions having total assets of \$500 million or greater at the beginning of its fiscal year to have a peer review that includes the review of at least one audit of an insured depository institution subject to the FDICIA.
- d. **Broker-Dealers**—Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits of broker-dealers. The type of broker-dealer with the highest risk is a carrying broker-dealer. Therefore, if a firm performs the audit of one or more carrying broker-dealers, at least one such audit engagement should be selected for review. It is also expected that if a firm's audits of broker-dealers include only introducing broker-dealers, the team captain should be aware of and give special consideration to the risks associated with such broker-dealer audits in making engagement selections.
- e. **Service Organizations**—Due to the reliance on Service Organization Control Reports<sup>®</sup>, particularly SOC 1<sup>SM</sup> and SOC 2<sup>SM</sup> reports, there is a significant public interest in examinations of service organizations relevant to user entities. Therefore, if a firm performs an examination of one or more service organizations and issues a SOC 1 or SOC 2 report, at least one such engagement should be selected for review.

In complying with the requirements in the previous list, peer reviewers will ensure that the engagements selected include a reasonable cross section of the firm's accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain this risk weighted cross section. See Interpretation 63-1 of paragraph .63 in section 1000 (sec. 2000 question 63-1), for more information.

**.17** The review of engagements will include the review of financial statements, accountants' reports, accounting and audit documentation, and correspondence, as well as discussions with personnel of the reviewed firm.

**.18** Appendix A (sec. 4100 par. .36) was developed to assist firms in preparing for the review. The completion and availability of all items discussed in appendix A helps ensure an efficient review.

## During the Review

**.19** The designated liaison should meet with the review team at the beginning of the review to orient them to firm policies and procedures, introduce them to appropriate personnel, and provide them with a tour of the office.

**.20** During the course of the review, the review team may find it necessary to discuss matters with the appropri-

ate firm personnel. Firm personnel should be asked to be available to the review team as necessary during the course of the review.

## Completion of the Review

**.21** A firm that has a System Review should respond promptly to questions raised in the review in order to assist the review team in reaching its conclusions. Prior to issuing its report or finalizing Finding for Further Consideration (FFC) form(s), if applicable, the review team will communicate any matters documented on the Matter for Further Consideration (MFC) form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report to be issued through one or more exit conferences (ordinarily only one). The designated liaison should arrange for appropriate partners and staff to attend the exit conference. It is expected that the reviewed firm's senior management, the individuals responsible for maintaining the firm's system of quality control and the review team physically attend the exit conference. Ordinarily, the team captain should be physically present at the exit conference, unless the System Review is performed at a location other than the practitioner's office (see Interpretation No. 8-1 of paragraph .08 in section 1000 [sec. 2000]). The exit conference may also be attended by representatives of the administering entity, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities.

**.22** The review team should also communicate, if applicable, that the firm will be required to respond to the matters documented on the MFC form(s), findings documented on the FFC form(s), or the deficiency(ies) or significant deficiencies included in the peer review report. The review team should also communicate that the firm may be required, if applicable, to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report or (2) complete an implementation plan to address the findings noted in the FFC form(s). The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program. The exit conference is also the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).

**.23** The firm will provide the team captain with written representations, at a minimum relating to the following matters:

- a. Situations or a summary of situations where management is aware that the firm or its personnel has 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) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance.
- b. Communications or summary 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 the three years preceding the firm's current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review (see interpretation 34-1 in section 2000). In addition, the reviewer may inquire if there are any other issues that may affect the firm's practice.
- c. 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.
- d. ~~Completeness~~ Completeness of the engagement listing provided to the reviewer, including, but not limited to, inclusion of all engagements performed, whether issued or not, under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and 2 engagements, as applicable, and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection, and availability of the engagements with periods ending during the year under review. For financial forecasts or projections and agreed upon procedures, this includes those with report dates during the year under review.
- e. Discussions of significant issues from reports or communications, or both, from other practice monitoring or

external inspection programs, such as that of the PCAOB, with the team captain (see interpretations 40-1, 40-2, and 181-1b-1 in section 2000).

f. Accepting responsibility for understanding, tailoring, and augmenting the quality control materials that the firm develops or adopts for use in its accounting and auditing practice.

fg. Other representations obtained by the team captain or review captain, which will depend on the circumstances and nature of the peer review.

See section 1000 paragraph .181, “Appendix B, Considerations and Illustrations of Firm Representations.” Each representation indicated above must be included in the representations letter. Additional representations may be made to indicate that no such conditions exist. The written representations should be addressed to the team captain performing the peer review, presented on firm letterhead and signed on behalf of the firm. The written representations should be signed by those members of management whom the team 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. Such members of management normally include the managing partner and partner or manager in charge of the firm’s system of quality control. Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the peer review report or other peer review documents, the representations should be dated the same date as the peer review report.

.24 Ordinarily the FFC forms should be responded to by the reviewed firm during the peer review; for example, during or immediately following the exit conference. This would allow the team captain to assist the firm in developing its responses and obtaining the necessary signatures on the FFC forms and allow the team captain to review the responses at that time, all of which will expedite the process. The reviewed firm’s response should describe how the firm intends to implement the reviewer’s recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The team captain can provide assistance in ensuring that the responses are appropriate and comprehensive. However, it is also recognized that the reviewed firm may prefer to provide its final responses after it has had the opportunity to discuss them further internally, develop a plan of action and/or more formally respond. In either case, the completed FFC forms should be submitted to the team captain no later than two weeks after the exit, or by the peer review’s due date, whichever is earlier. FFC forms are then submitted by the team captain with the applicable working papers to the administering entity. If the reviewed firm’s response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.

.25 The firm will receive a report on the peer review within 30 days of the exit conference date or by the firm’s peer review due date, whichever is earlier. However, the firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity as meeting the requirements of the program.

.26 If the reviewed firm receives a report with a peer review rating of *pass with deficiencies* or *fail*, the reviewed firm should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity’s peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the team captain or by the firm’s peer review due date, whichever date is earlier. Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the team captain for review, evaluation, and comment.

.27 If the reviewed firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.

.28 Reviewers and reviewed firms should understand that professional judgment often becomes a part of the pro-

cess and each party has the right to challenge each other on such matters. If, after discussion with the team captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement. For more information on disagreements, please review paragraph .98 of section 1000.

**.29** The AICPA Peer Review Board encourages the reviewed firm to work with the team captain to develop recommendations that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the peer review. Experience shows that improvement is more likely to occur when the letter of response describes specific actions to be taken. Therefore, a response limited to the firm's comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

**.30** The administering entity will not make the report on the review available to the public. A firm may be a voluntary member of one of the AICPA's audit quality centers or sections. These centers or sections mandate that firms make certain peer review documents open to public inspection as a membership requirement. Other firms may elect not to opt out of the program's process for voluntary disclosure of peer review results to state boards of accountancy (SBOAs) where the firm's main office is located. Also, firms may voluntarily instruct their administering entity to make the peer review results available to certain other SBOAs. In these cases, the firm permits the AICPA and administering entities to make their peer review results available to the public or to SBOAs, respectively.

**.31** As part of the acceptance process, the firm may be requested to perform remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. If a firm does not perform the required actions, this will delay completion of the firm's peer review and could jeopardize the firm's enrollment in the program.

**.32** The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. Based on the information on the FFC form, the firm may be required to have an implementation plan in addition to the plan described by the reviewed firm in its response to the findings on the FFC form(s). If a firm does not perform the required action in the implementation plan, it could jeopardize the firm's enrollment in the program. Disciplinary actions (including those that can result in the termination of a firm's enrollment in the program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners and employees) will be taken only for a failure to cooperate, failure to correct inadequacies, or when a firm is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

## Fees and Expenses

**.33** Administering entities approved by the AICPA Peer Review Board are authorized to establish dues or registration fees within their individual jurisdictions to fund the administration of the AICPA Peer Review Program.

**.34** The AICPA Peer Review Board has adopted procedures (see Interpretation No. 5h-1, "Cooperating in a Peer Review" [sec. 2000, question 5h-1]) for dropping a firm's enrollment in the AICPA Peer Review Program for failure to pay fees charged by an administering entity of the AICPA Peer Review Program.

**.35** The AICPA Peer Review Board has adopted a resolution for dropping a firm's enrollment in the AICPA Peer Review Program for failing to pay the fees and expenses related to the administration of the program that have been authorized by the governing body of an administering entity.

## Appendix A

### Checklist for Firms Undergoing a System Review

(for System Reviews commencing on or after January 1, 2009)

The following checklist is intended to assist a firm in preparing for the peer review team’s visit. The completion and availability of all items discussed will help to ensure an efficient review.

|   | <u>Initial</u> | <u>Date</u> |
|---|----------------|-------------|
| 1. Verify that the team captain is qualified to perform the review.   | _____          | _____       |
| 2. Obtain and return the engagement letter.   | _____          | _____       |
| 3. Set the dates for the performance of the peer review and confirm the 12-month period to be covered by the review with the team captain.  | _____          | _____       |
| 4. If requested to do so, arrange for hotel accommodations for the review team and communicate details to the team captain.   | _____          | _____       |
| 5. Submit the firm’s background information, including the background or scheduling form provided to the administering entity, to the team captain.   | _____          | _____       |
| 6. If the firm contemplated excluding engagement(s) or aspect(s) of functional area(s), verify that it notified the team captain in a timely manner and submitted a written statement to the administering entity indicating  |                |             |
| <i>a.</i> it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process;   |                |             |
| <i>b.</i> the reasons for the exclusion; and  |                |             |
| <i>c.</i> it is requesting a waiver for the exclusion.  |                |             |
| The waiver should ordinarily be obtained prior to commencement of the review. The documents should be kept with peer review documentation.  | _____          | _____       |
| 7. Provide the following to the team captain when available:  |                |             |
| <i>a.</i> The firm’s quality control document effective for the peer review year, if any.   | _____          | _____       |
| <i>b.</i> In lieu of a quality control document effective for the peer review year, a completed “Quality Control Policies and Procedures Questionnaire.” If the questionnaire was not effective for the peer review year, the firm should also provide the previously completed questionnaire(s) that were effective for the peer review year, if any. This could be the questionnaire completed for the firm’s last peer review, which the firm should be maintaining as documentation of their system of quality control. Under certain circumstances, the team captain may request that a firm complete this questionnaire (and attach the quality control document) even if it has a quality control document. See .11b for further guidance. | _____          | _____       |
| <i>c.</i> A list of the firm’s personnel, showing name, position, and years of experience (i) with the firm and (ii) in total.  | _____          | _____       |
| <i>d.</i> All relevant manuals, checklists, partners’ resumes, and so on to the extent requested by the team captain.   | _____          | _____       |
| <i>e.</i> Completed “Managing Partner/Chief Executive Office Interview Questionnaire” (sec. 4750), unless the form will be completed during the interview.  | _____          | _____       |

|   | <u>Initial</u> | <u>Date</u> |
|---|----------------|-------------|
| 8. Prepare separate schedules of the firm’s audit, review, other attestation, and compilation engagements. The schedules should include the following for each engagement:  |                |             |
| a. Total number of auditing or accounting hours (actual, if available, or estimated) (the hours should not include nonattest services [including tax, bookkeeping, or other assistance] provided in connection with the service)  | _____          | _____       |
| b. Partner-in-charge  | _____          | _____       |
| c. Nature of the client’s business or an indication of the industry in which the client operates  | _____          | _____       |
| d. Period reported on or year end date of the financial statements  | _____          | _____       |
| e. Whether or not the engagement is an initial engagement   | _____          | _____       |
| 9. On the schedule of <del>audit</del> engagements, all audits of employee benefit plans subject to ERISA, engagements performed under <i>Government Auditing Standards (including OMB A-133 single audits)</i> , audits of depository institutions with \$500 million or more in total assets, carrying broker-dealers and examinations of service organizations (SOC 1 and 2 engagements) should be highlighted. <u>If multiple engagements are performed for the same client, they should be identified separately.</u> In addition, <del>audits</del> <u>engagements</u> that involve other offices of the firm or that were performed with other firms’ assistance should be identified. | _____          | _____       |
| 10. Prior to the review, the review team will ask to interview members of the firm. Arrange for the selected individuals to be available.   | _____          | _____       |
| 11. Complete working papers, reports, and the related financial statements for all the firm’s engagements should be available for review.   | _____          | _____       |
| 12. All personnel files should be available for review.   | _____          | _____       |
| 13. All independence representations obtained during the year should be available for review (if required by the firm’s policies and procedures).   | _____          | _____       |
| 14. Documentation regarding the independence of any correspondent firms used during the year should be available for review.  | _____          | _____       |
| 15. Documentation supporting resolution of any independence consultations during the year should be available for review.   | _____          | _____       |
| 16. Have available appropriate CPE records for all personnel for the three most recent educational years.   | _____          | _____       |
| 17. Have available communications relating to allegations or investigations of deficiencies (including litigation) in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm since the firm’s last peer review year end.  | _____          | _____       |
| 18. Documentation regarding consultations with outside parties on accounting and auditing matters should be available for review.   | _____          | _____       |
| 19. Make available the firm’s monitoring reports and/or related information since the last peer review, including internal inspection report, that documents the scope of the monitoring procedures, the findings, and any recommendations for corrective action.   | _____          | _____       |

- |   |                |             |
|---|----------------|-------------|
|   | <u>Initial</u> | <u>Date</u> |
| 20. Take appropriate measures, if any, to satisfy the firm's obligations concerning client confidentiality. | _____          | _____       |

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## Appendix B

### An Illustration of a List of Accounting and Auditing Engagements<sup>1</sup>

| <i>Client Code</i> | <i>Period Covered</i> | <i>Level of Service Provided*</i> | <i>Initial Eng.</i> | <i>Industry†</i> | <i>Foreign Ops</i> | <i>Name of Partner</i> | <i>Approx. Total Hours‡</i> |
|--------------------|-----------------------|-----------------------------------|---------------------|------------------|--------------------|------------------------|-----------------------------|
| 10001              | 9/30/12               | ATAUP<br>(Bank Director's Exam)   | N                   | 125              | N                  | White                  | 500                         |
| 10002              | 10/31/12              | A6                                | Y                   | 165              | Y                  | Smith                  | 350                         |
| 10003              | 6/30/12               | A2                                | N                   | 330              | N                  | Jones                  | 275                         |
| 10005              | 12/31/12              | A4                                | N                   | 450              | N                  | Smith                  | 150                         |
| 10005              | 6/30/12               | R                                 | N                   | 260              | N                  | Smith                  | 110                         |
| 10006              | 6/30/12               | C-8                               | Y                   | 260              | N                  | Smith                  | 20                          |
| 20001              | 12/31/12              | R                                 | Y                   | 165              | N                  | Smith                  | 100                         |
| 20002              | 3/31/12               | R                                 | N                   | 175              | N                  | White                  | 125                         |
| 20003              | 4/30/12               | R                                 | N                   | 250              | N                  | Jones                  | 45                          |
| 20003              | 3/31/12               | C                                 | N                   | 250              | N                  | Jones                  | 35                          |
| 20004              | 6/30/12               | C-8                               | N                   | 250              | N                  | Jones                  | 20                          |
| 30001              | 12/31/12              | C                                 | N                   | 165              | N                  | Smith                  | 50                          |
| 30002              | 3/31/12               | CO                                | N                   | 250              | N                  | Jones                  | 40                          |
| 30003              | 6/30/12               | CO                                | N                   | 250              | N                  | Jones                  | 60                          |
| 30004              | 9/30/12               | PFSC                              | Y                   | 250              | N                  | Jones                  | 40                          |
| 30005              | 12/31/12              | C                                 | N                   | 217              | N                  | White                  | 80                          |
| 30006              | 12/31/12              | C-8                               | N                   | 217              | N                  | White                  | <u>20</u>                   |
|                    |                       | Total                             |                     |                  |                    |                        | <u>2020</u>                 |

<sup>1</sup> Ordinarily include engagements with reports with financial statement periods ended during the peer review year.

\* Denotes the level of service by using the codes set forth in this appendix.

† Denotes the type of industry by using the codes set forth in this appendix.

‡ Total hours should include only the time from the completed trial balance to the issuance of the accountant's or auditor's report on the financial statements. Total hours do not include clerical, computer entry, payroll services, taxes, and so on.

### Codes for Level of Service

|        |  |
|--------|--|
| A1     | Audit Under <i>Government Auditing Standards</i> (GAS/Yellow Book) (Excluding Single Audit Act [OMB A-133] Engagements)  |
| A2     | Single Audit Act (OMB A-133) Engagement under GAS/Yellow Book  |
| A3     | All Nonaudit Engagements Under GAO   |
| A4     | Audit Performed Under the Employee Retirement Income Security Act of (ERISA)<br>Defined Contribution Plan—Limited and Full Scope (excluding 403(b) plan)<br>Defined Contribution Plan—Limited and Full Scope (403(b) plan only)<br>Defined Benefit Plan—Limited and Full Scope<br>ERISA Health and Welfare Plan<br>Employee Stock Ownership Plan (ESOP)<br>Other Employee Benefit Plan |
| A5     | Audit of Federally Insured Depository Institution subject to Federal Deposit Insurance Corporation Improvement Act (FDICIA) (With \$500 Million or Greater in Total Assets at the Beginning of Its Fiscal Year)  |
| A6     | Audit <sup>11</sup>  |
| A7     | Engagement of a Non-Securities and Exchange Commission (SEC) Issuer Performed in Accordance With Public Company Accounting Oversight Board (PCAOB) Auditing or Attestation Standards   |
| PFSE   | Examination of Prospective Financial Statements  |
| PFSC   | Compilation of Prospective Financial Statements  |
| PFSaup | Agreed-Upon Procedures of Prospective Financial Statements   |
| ATE    | Examination of Written Assertions  |
| ATR    | Review of Written Assertions   |
| ATAUP  | Agreed-Upon Procedures   |
| SOC1   | Examination of SOC 1 Engagements   |
| SOC2   | Examination of SOC 2 Engagement  |
| R      | Review of Financial Statements   |
| C      | Compilation of Financial Statements With Disclosures on Which a Report was Issued  |
| CO     | Compilation of Financial Statements That Omit Substantially All Disclosures on Which a Report Was Issued   |
| C-8    | Compilation engagements when the compiled financial statements are not expected to be used by a third party (management use only) and when an engagement letter was issued instead of a report   |
| IA1    | Use as a ‘suffix’ for level of service codes when the engagement is performed under International Standards on Auditing (ISAs) or any other standards issued by the International Auditing and Assurance Standards Board (IAASB) or any other audit or assurance standards outside of the United States (for example, A6-IA1).   |
| IA2    | Use as a ‘suffix’ for level of service codes when the engagement is performed under any other international standards on audit, assurance or related services (for example, A6-IA2)  |
| IA3    | Use as a ‘suffix’ for level of service codes when the engagement has been performed using any international accounting or reporting standards (except for International Financial Reporting Standards) (for example, A6-IA3)   |

<sup>11</sup> Includes audits of financial statements and other audit services.



## Industry Codes

|     |  |     |  |
|-----|--|-----|--|
| 005 | Engagements Under Government Auditing Standards (GAS/Yellow Book) (Excluding Single Audit Act (A-133) Engagements) | 380 | Defined Contribution Plans—Full and Limited Scope (Excluding 403(b))               |
| 013 | Single Audit Act (A-133) Engagements Under Government Auditing Standards (GAS/Yellow Book)                         | 383 | Defined Contribution Plans—Full and Limited Scope (403(b) Plans Only)              |
| 007 | Federal Deposit Insurance Corporation Banking <sup>#</sup>   | 390 | Defined Benefit Plans—Full and Limited Scope                                       |
| 222 | HUD Programs   | 400 | ERISA Health and Welfare Plans   |
| 320 | School Districts   | 403 | ESOP Plans   |
| 325 | State and Local Governments  | 405 | Other ERISA Plans  |
|     |  | 440 | Carrying Broker-Dealers *  |
|     |  |     |  |
| 110 | Agricultural, Livestock, Forestry, and Fishing   | 216 | Hospitals  |
| 115 | Airlines   | 217 | Nursing Homes  |
| 120 | Auto Dealerships   | 230 | Investment Companies and Mutual Funds  |
| 125 | Banking  | 240 | Life Insurance Companies   |
| 145 | Casinos  | 250 | Mortgage Banking   |
| 150 | Colleges and Universities  | 260 | Not-for-Profit Organizations (includes Voluntary Health and Welfare Organizations) |
| 155 | Common Interest Realty Associations  | 268 | Personal Financial Statements  |
| 165 | Construction Contractors   | 295 | Real Estate Investment Trusts  |
| 175 | Credit Unions  | 300 | Reinsurance Companies  |
| 180 | Extractive Industries—Oil and Gas  | 308 | Rural Utilities Service Borrowers  |
| 185 | Extractive Industries—Mining   | 310 | Savings and Loan Associations  |
| 186 | Federal Student Financial Assistance Programs  | 312 | SOC 1 Reports  |
| 190 | Finance Companies  | 313 | SOC 2 Reports  |
| 195 | Franchisors  | 314 | SOC 3 Reports  |
| 200 | Property and Casualty Insurance Companies  | 330 | Telephone Companies  |
| 205 | Government Contractors   | 335 | Utilities  |
| 210 | Health Maintenance Organizations   | 450 | Non-carrying Broker-Dealers*   |
|     |  | 002 | Other (Describe)   |

<sup>#</sup> Federally insured depository institutions having total assets of \$500 million or greater at the beginning of its fiscal year under Federal Deposit Insurance Corporation Improvement Act of 1991 (Title 12 U.S. *Code of Federal Regulations* [CFR] Part 363.3[a], in contrast to the \$1 billion threshold referred to in 12 CFR 363.3[b]).

\* Carrying broker-dealers include all broker-dealers that clear customer transactions, carry customer accounts or hold custody of customer cash or securities. Examples of carrying broker-dealers include (a) clearing broker-dealers who receive and execute customer instructions, prepare trade confirmations, settle the money related to customer trades and arrange for the book entry or physical movement of the securities and (b) carrying broker-dealers that hold customer accounts or clear customer trades for introducing broker-dealers. Non-carrying broker-dealers are those broker-dealers that do not clear customer transactions, carry customer accounts, or hold custody of customer cash or securities. Examples of non-carrying broker-dealers are (a) introducing broker-dealers that introduce transactions and accounts of customers or other broker-dealers to another registered broker-dealer that carries such accounts on a fully disclosed basis and that does not receive or hold customer or other broker-dealer securities and (b) a broker-dealer whose business does not involve customer accounts, such as proprietary trading firms, investment banking firms, and firm's that sell interest in mutual funds or insurance products. If you have any question about whether the audits you perform of broker-dealers are carrying or noncarrying, please contact the AICPA Peer Review technical hotline at [prptechnical@aicpa.org](mailto:prptechnical@aicpa.org) or 919-402-4502, option 3.

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## Appendix C

### Entities Administering the AICPA Peer Review Program

| <i>State Where Main Office of Firm is Located</i> | <i>Name of Entity Administering AICPA Peer Review Program</i> | <i>Telephone Number</i>   |
|---|---|---------------------------|
| Alabama   | Alabama Society of CPAs                                       | (334) 834-7650            |
| Alaska  | California Society of CPAs                                    | (650) 802-2486            |
| Arkansas  | Arkansas Society of CPAs                                      | (501) 664-8739            |
| Arizona   | California Society of CPAs                                    | (650) 802-2486            |
| California  | California Society of CPAs                                    | (650) 802-2486            |
| Colorado  | Colorado Society of CPAs                                      | (303) 773-2877, ext. 105  |
| Connecticut                                       | Connecticut Society of CPAs                                   | (860) 258-4800, ext. 213  |
| Delaware  | Pennsylvania Institute of CPAs                                | (215) 496-9272            |
| District of Columbia                              | Virginia Society of CPAs                                      | (804) 270-5344            |
| Florida   | Florida Institute of CPAs                                     | (850) 224-2727, ext. 250  |
| Georgia   | Georgia Society of CPAs                                       | (404) 504-2958            |
| Guam  | Oregon Society of CPAs  | (503) 641-7200            |
| Hawaii  | Hawaii Society of CPAs  | (808) 537-9475            |
| Idaho   | Idaho Society of CPAs   | (208) 344-6261            |
| Illinois  | Illinois CPA Society  | (312) 993-0407, ext. 276  |
| Indiana   | Indiana CPA Society   | (317) 726-5000            |
| Iowa  | Iowa Society of CPAs  | (515) 223-8161            |
| Kansas  | Kansas Society of CPAs  | (785) 272-4366            |
| Kentucky  | Kentucky Society of CPAs                                      | (502) 266-5272            |
| Louisiana   | Society of Louisiana CPAs                                     | (504) 464-1040            |
| Maine   | New England Peer Review, Inc.                                 | (603) 623-3513            |
| Maryland  | Maryland Association of CPAs                                  | (443) 632-2330            |
| Massachusetts                                     | Massachusetts Society of CPAs                                 | (617) 556-4000            |
| Michigan  | Michigan Association of CPAs                                  | (248) 267-3700            |
| Minnesota   | Minnesota Society of CPAs                                     | (952) 831-2707            |
| Mississippi                                       | Mississippi Society of CPAs                                   | (601) 856-4244            |
| Missouri  | Missouri Society of CPAs                                      | (314) 997-7966            |
| Montana   | Montana Society of CPAs                                       | (406) 442-7301            |
| Nebraska  | Nevada Society of CPAs  | (775) 826-6800            |
| Nevada  | Nevada Society of CPAs  | (775) 826-6800            |
| New Hampshire                                     | New England Peer Review, Inc.                                 | (603) 623-3513            |
| New Jersey  | New Jersey Society of CPAs                                    | (973) 226-4494            |
| New Mexico  | New Mexico Society of CPAs                                    | (505) 246-1699            |
| New York  | New York State Society of CPAs                                | (212) 719-8300            |
| North Carolina                                    | North Carolina Association of CPAs                            | (919) 469-1040            |
| North Dakota                                      | North Dakota Society of CPAs                                  | (701) 775-7100            |
| Ohio  | Ohio Society of CPAs  | (614) 764-2727            |
| Oklahoma  | Oklahoma Society of CPAs                                      | (405) 841-3800, ext. 3805 |
| Oregon  | Oregon Society of CPAs  | (503) 641-7200            |
| Pennsylvania                                      | Pennsylvania Institute of CPAs                                | (215) 496-9272            |
| Puerto Rico                                       | Colegio de Contadores Publicos Autorizados                    | (787) 754-1950            |
| Rhode Island                                      | New England Peer Review, Inc.                                 | (603) 623-3513            |
| South Carolina                                    | South Carolina Association of CPAs                            | (803) 791-4181, ext. 107  |
| South Dakota                                      | Oklahoma Society of CPAs                                      | (405) 841-3800, ext. 3805 |
| Tennessee   | Tennessee Society of CPAs                                     | (615) 377-3825            |
| Texas   | Texas Society of CPAs   | (972) 687-8617            |

| <i>State Where Main Office of Firm is Located</i> | <i>Name of Entity Administering AICPA Peer Review Program</i> | <i>Telephone Number</i>   |
|---|---|---------------------------|
| Utah  | Nevada Society of CPAs  | (775) 826-6800            |
| Vermont   | New England Peer Review, Inc.                                 | (603) 623-3513            |
| Virgin Islands                                    | Pennsylvania Institute of CPAs                                | (215) 496-9272            |
| Virginia  | Virginia Society of CPAs                                      | (804) 270-5344            |
| Washington  | Washington Society of CPAs                                    | (425) 586-1132            |
| West Virginia                                     | West Virginia Society of CPAs                                 | (304) 342-5461            |
| Wisconsin   | Wisconsin Institute of CPAs                                   | (262) 785-0445, ext. 3025 |
| Wyoming   | Nevada Society of CPAs  | (775) 826-6800            |

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# PRP Section 4200

## *Instructions to Reviewers*

### *Performing System Reviews*

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## Introduction

**.01** The purpose of these instructions is to provide overall guidance for review teams assigned to peer reviews under the auspices of the AICPA Peer Review Program (the program). The instructions should be read in conjunction with section 1000, *Standards for Performing and Reporting on Peer Reviews*; section 2000, *Peer Review Standards Interpretations*; section 3000, *Other Guidance*; and materials issued to accomplish the goals of the program. System Reviews should generally be documented using the programs and checklists issued by the AICPA Peer Review Board (refer to Interpretation 24-1). Questions regarding these instructions or any other materials or about the review in general should be directed to AICPA Peer Review staff at (919) 402-4502, or by e-mail at [prtechnical@aicpa.org](mailto:prtechnical@aicpa.org).

**.02** System Reviews are intended to provide the review team with a reasonable basis for expressing an opinion on whether, during the year under review, a reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (see Statement on Quality Control Standards [SQCS] No. 8, *A Firm's System of Quality Control* [AICPA, *Professional Standards*, QC sec. 10]), and was being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

## Independence and Conflict of Interest

**.03** Independence in fact and in appearance with respect to the reviewed firm must be maintained by the reviewing firm, by review team members, and by any other individuals who may participate in the review (See Interpretations 21-1 through 21-20 "Independence, Integrity, and Objectivity," of paragraph .21 in section 1000 (sec. 2000 question 21-1-20). ET section 54, *Article III—Integrity*, and ET section 55, *Article IV—Objectivity and Independence* (AICPA, *Professional Standards*), of the AICPA Code of Professional Conduct, does not specifically consider relationships between review teams, reviewed firms, and clients of reviewed firms. However, the concepts pertaining to independence embodied in the Code of Professional Conduct should be considered in making independence judgments. See section 1000 paragraphs .21–.22.

**.04** A reviewing firm or a review team member should not have a conflict of interest with respect to the reviewed firm or to those clients of the reviewed firm who are the subject of engagements reviewed.

## Organization of the Review Team

**.05** A System Review team ordinarily should be approved by the administering entity prior to the planning and commencement of the peer review, which is when the review team begins field work, ordinarily at the reviewed firm's office. A review team is headed by a team captain who is responsible for supervising and conducting the review, communicating the review team's findings to the reviewed firm and to the administering entity, preparing the report on the review, and ensuring that peer review documentation is complete and submitted to the administering entity on a timely basis. If applicable, the team captain should supervise and review the work performed by other reviewers on the review team to the extent deemed necessary under the circumstances. The team captain will furnish instructions to the review team regarding the manner in which materials and other notes relating to the review are to be accumulated to facilitate summarization of the review team's findings and conclusions. The team captain must notify the administering entity of changes, if any, in the composition of the review team and in the date of the exit conference. See section 1000 paragraphs .26–.30.

## Scope of Review

**.06** The scope of the review should cover a firm's accounting and auditing practice, which is defined in section 1000 paragraph .06, and the system of quality control for the peer review year. Reviewers should confirm the peer review year end with the firm prior to planning the review. The list of engagements provided to the team captain should include all engagements with periods ended during the year under review, regardless of whether the engagement reports are issued. If the current year's engagement has not been completed or issued, the reviewer should refer to section 1000 paragraph .58 and related Interpretations. Other segments of a firm's practice, such as providing tax services or management advisory services, are not encompassed by the scope of the review except to the extent they are associated with financial statements (for example, reviews of tax provisions and accruals contained in financial statements are included in the scope of the review). Review team members are not to have contact with, or access

to, any client of the reviewed firm in connection with the review.

**.07** The review team should also obtain a sufficient understanding of the reviewed firm’s system of quality control with respect to each of the quality control elements in SQCS No. 8 to plan the review (see Interpretation No. 42-1 “Understanding the Firm’s System of Quality Control”). SQCS No. 8 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The understanding obtained by the review team should include knowledge about the design of the reviewed firm’s quality control policies and procedures in accordance with quality control standards established by the AICPA and how the policies and procedures identify and mitigate risk of material noncompliance with applicable professional standards.

**.08** The team captain should review section 4750, *Managing Partner/Chief Executive Office Interview Questionnaire*, completed by the firm and conduct the interview. The objective of the interview is to assist the peer review team in gaining an understanding of the firm leadership’s involvement with its system of quality control. The questionnaire is designed to facilitate the interview and help the review team gain an understanding of management’s philosophy towards and support of the quality control initiatives in the firm and should be considered in assessing inherent and control peer review risk. The interview should occur during the planning stage or early in the peer review. In addition to the managing partner or CEO interview, the review of the firm’s quality control policies and procedures include interviews of the reviewed firm’s management and staff. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated. The review team may perform one-on-one staff interviews or, depending on the size of the firm, focus groups (see section 4700, *Staff Interview Questionnaire*).

**.09** The review team should discuss with the reviewed firm whether litigation, proceedings, or investigations against the firm or its personnel since the date of the firm’s last peer review involve the same offices, industries, audit areas, or engagement personnel, and whether the firm has considered any such patterns in the scope of its own monitoring or other internal review programs. In addition, section 1000 paragraph .181 requires the reviewed firm to make certain communications available to the review team regarding allegations or investigations of deficiencies in the conduct of its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within the three years preceding the firm’s current peer review year-end and through the date of the exit conference. The review team, giving due regard to the fact that such litigation, proceedings, and investigations may involve unproven allegations, should consider this information in setting the scope of the review. In this connection, review teams must recognize that it is not their function to evaluate the merits of litigation or the adequacy of corrective actions, if any, taken by the firm as a result thereof. However, a reviewer might decide that an office that is involved in several instances of litigation should be selected for visitation rather than a comparable office with no litigation. Similarly, if a firm is involved in several instances of litigation involving a specific industry, the reviewer might consider whether the scope of his work adequately considers the risk factors inherent in that industry. The review team’s documentation of its performance in this regard should be limited to an indication that such matters (without identification of the litigation) were considered in setting the scope of the review.

**.10** The review team should obtain the reviewed firm’s latest peer review report,<sup>\*</sup> letter of response, and Finding for Further Consideration (FFC) form(s), if applicable, and should consider whether matters discussed therein require additional emphasis in the current review. In all cases, the review team should evaluate the actions taken by the firm in response to the prior report.<sup>\*</sup>

**.11** The review team should obtain a sufficient understanding of the reviewed firm’s monitoring policies and procedures since its last peer review, and their potential effectiveness, to plan the current peer review. In doing so, the review team may determine that the current year’s internal monitoring procedures could enable the review team to reduce, in a cost-beneficial manner, the number of offices and engagements selected for review or the extent of the functional area review. If the review team contemplates reducing scope based on the reviewed firm’s internal inspection process, refer to Interpretations 45-1 and 2, “Considering the Firms Monitoring Procedures,” of paragraph .45 in section 1000 (sec. 2000), for more information.

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<sup>\*</sup> And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.

## Peer Review Risk

### Assessing Peer Review Risk

.12 In planning the review, the review team should use the understanding it has obtained of the reviewed firm's accounting and auditing practice and its system of quality control to assess the inherent and control risks. The assessment of risks is qualitative and not quantitative. The lower the inherent and control risk, the higher the detection risk that can be tolerated and vice versa. Based on its assessment of inherent and control risk, the review team determines the acceptable level of detection risk.

.13 When assessing risk, the review team should evaluate the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the requirements contained in SQCS No. 8. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

### Relationship of Risk to Scope

.14 The review team should consider the combined assessed levels of inherent and control risk when selecting offices and engagements to be reviewed. The higher the combined assessed levels of inherent and control risk, the higher the peer review risk. To reduce the peer review risk to an acceptable low level, the detection risk needs to be low, and thus the greater the scope (that is, the greater the number of offices that should be visited or the greater the number of engagements that should be reviewed, or both). Conversely, the lower the combined assessed levels of inherent and control risk, the smaller the scope that needs to be considered for review. The combined assessed levels of inherent and control risk may vary among offices and engagements so that the scope may be greater for some types of offices and engagements than for others.

.15 However, even when the combined assessed levels are low, the peer review team must review some engagements to obtain reasonable assurance that the reviewed firm is complying with its quality control policies and procedures and applicable professional standards. For the review team to obtain such assurance, a reasonable cross section of the reviewed firm's accounting and auditing engagements must be reviewed or inspected, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk (see interpretation 52-1).

### *Inherent Risk Factors*

.16 In assessing inherent risk factors, the reviewer should consider

- circumstances arising within the firm (for example, the firm or individual partners have engagements in several specialized industries);
- circumstances outside the firm that affect the firm's clients (for example, new professional standards or those being applied initially for one or more clients, changes in regulatory requirements, adverse economic developments in an industry in which one or more of the firm's clients operate, or significant developments in the client's organization).
- variances that may occur from year to year, engagement to engagement or, perhaps, from partner to partner, within the firm. For example, inherent risk will always be higher for an audit of a company or organization operating in a high-risk industry than for a compilation of financial statements without disclosure for a company operating in a noncomplex industry; and there are many situations between these two extremes.

### *Control Risk Factors*

.17 Assessing control risk requires reviewers to evaluate the effectiveness of the reviewed firm's quality control policies and procedures in preventing the performance of engagements that do not comply with professional standards. When assessing control risk, the review team should evaluate the reviewed firm's quality control policies and procedures and discuss with the firm if it considered the guidance in the AICPA's Audit and Accounting Practice Aid *Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*. The reviewer should evaluate whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures for each of the elements of quality control in the context of the firm's overall control environment and the inherent risk embodied in its accounting and auditing practice.

**.18** 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. Engagements selected should provide a reasonable cross-section of the firm's accounting and auditing practice, with a greater emphasis on those engagements in the practice with higher assessed levels of peer review risk.

**.19** Reviewers must document, as part of the Summary Review Memorandum (SRM), the risk assessment of the firm's accounting and auditing practice and its system of quality control, the number of offices and engagements selected for review, and the basis for that selection in relation to the risk assessment. To effectively assess risk of the firm's accounting and auditing practice and its quality control policies, risk assessment documentation should not only address the engagements selected and the reasoning behind that selection, but also the environment of the firm and its system of quality controls. Some additional factors that should be considered in assessing risk include the following:

- The relationship of the firm's audit hours to total accounting and auditing hours
- Size of the firm's major engagement(s), relative to the firm's practice as a whole
- Initial engagements and their impact on the firm's practice
- The industries in which the firm's clients operate, especially the firm's industry concentrations
- The results of the prior peer review
- Owners' continuing professional education (CPE) policies and the firm's philosophy toward continuing education<sup>1</sup>
- The firm's monitoring policies
- The firm's approach to ensuring a complete and accurate engagement listing for its internal monitoring and for the peer review
- Adequacy of the firm's professional library
- Risk level of the engagements performed<sup>2</sup>
- Changes to the firm's structure or personnel since the prior peer review

### ***Detection Risk***

**.20** Inherent risk and control risk directly relate to the firm's accounting and auditing practice and its system of quality control, respectively, and should be assessed in planning the review. Based on the combined assessment, the reviewer selects engagements for review and determines the scope of other procedures to reduce the peer review risk to an acceptable level. The lower the combined inherent and control risk, the higher the detection risk that can be tolerated. Conversely, a high combined inherent and control risk assessment results in a low detection risk and the resulting increase in the scope of review procedures.

## **Engagement Selection**

**.21** Engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk. The initial selection of engagements to be reviewed should be provided to the reviewed firm, but no earlier than three weeks before the commencement of the peer review at the related practice office or location. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed should be provided to the firm only once the review has commenced and not provided to the

<sup>1</sup> For example, did the firm accumulate the necessary hours or maintain the needed skills and improve delivery of professional services?

<sup>2</sup> For example, does the firm perform audits of employee benefit plans, entities subject to Circular A-133, and others under *Government Auditing Standards*, HUD-regulated entities, and other with high-risk features or complex accounting or auditing applications?



firm in advance. Ordinarily, based on the nature of the firm's practice and assuming that the engagement would not be automatically anticipated for selection by the reviewed firm, the engagement should be an audit. Otherwise, the engagement should be the firm's next highest level of service where the same criteria can be met. This should not increase the scope of the review.

**.22** At least one of each of the following types of engagements is required to be selected for review in a System Review, as applicable to the reviewed firm: governmental, employee benefit plans (ERISA), depository institutions (FDICIA), carrying broker-dealers and examinations of service organizations (Service Organization Control [SOC] 1 and 2 engagements). The peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain an appropriately weighted cross section. See Interpretations 63-1 of paragraph .63 in section 1000 (sec. 2000 question 63-1), for more information.

# PRP Section 6100

## *Instructions to Firms Having an Engagement Review*

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**.01** The purpose of these instructions is to provide guidance to firms having Engagement Reviews under the AICPA Peer Review Program (the program). Firms should be aware of their peer review responsibilities and requirements as discussed in the *Standards for Performing and Reporting on Peer Reviews* (sec. 1000), with an emphasis on paragraphs .01–.19 (sec. 1000 par. .01–.19), as well as these instructions. In addition, all individuals in the firm involved in the peer review should read and become familiar with the standards, interpretations, supplemental guidance, and materials relative to the aspect of the review that most directly affects their role in the firm. These individuals should be aware that peer review documents may need to be completed electronically by logging into their account on [www.aicpa.org](http://www.aicpa.org). If documents cannot be completed electronically, an alternative method acceptable to the AICPA can be used. These instructions should be used for reference on firm-on-firm reviews and reviews with committee appointed review teams (CARTS), and association formed review teams.

**.02** An Engagement Review is not available to firms that perform engagements under Statements on Auditing Standards (SASs), engagements under Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements performed under PCAOB standards. Firms that only perform services under Statements on Standards for Accounting and Review Services (SSARS) or services under the SSAEs not included in the previous sentence are eligible for Engagement Reviews. The scope of an Engagement Review only covers accounting engagements; it does not include tax or consulting services.

**.03** An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant’s report thereon, together with certain background information and representations from the firm and the documentation required by applicable professional standards. The peer reviewer’s objective is to evaluate whether the CPA firm’s reports are issued and procedures performed appropriately in accordance with applicable professional standards.

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

**.05** Engagement Reviews are administered by *administering entities* that elect to participate in and are approved by the AICPA Peer Review Board to administer the program. The administering entity will contact the firm at the appropriate time to make arrangements for the conduct of the review.

**.06** Prior to the review, the assigned reviewer or the administering entity will ask the reviewed firm to provide summarized information showing the number of the firm’s compilation and review engagements performed under SSARS and engagements performed under the SSAEs,<sup>1</sup> classified into industry categories. That information should be provided for each partner, or individual of the firm, if not a partner, who is responsible for the issuance of reports on such engagements (hereinafter “Responsible Party”). The person providing this information should be someone that is knowledgeable about the nature of the firm’s practice and is accountable for providing complete and accurate information to the administering entity and the peer review team. Firms should be aware that failure to accurately represent its accounting and auditing practice, as defined by the AICPA Standards for Performing and Reporting on Peer Review will be deemed a matter of noncooperation with the program for which the firm will be subject to a hearing by the Peer Review Board to determine if the firm’s enrollment from the program should be terminated. If the firm’s enrollment is terminated for omission or misrepresentation of information relating to its accounting and auditing practice, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct. The *Engagement Summary Form* that will be used for this purpose is located in appendix A of these instructions (paragraph 34). In addition, the reviewer will need a copy of the background or scheduling form that the reviewed firm submits to the administering entity to schedule the review. The firm is responsible for ensuring that the review captain is qualified to perform the review.

**.07** The firm will provide the review captain with written representations, at a minimum, relating to the following matters:

- a. Situations, or a summary of situations, where management is aware that the firm or its personnel has 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) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance.
- b. Communications or summary of communications from regulatory, monitoring, or enforcement bodies relat-

<sup>1</sup> See paragraph 6 of the standards (sec. 1000 par. .06) for a description of the types of attestation engagements included within the definition of an accounting and auditing practice for peer review purposes.

ing 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 the three years preceding the firm's current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review. In addition, the reviewer may inquire if there are any other issues that may affect the firm's practice.

- c. 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.

d. Completeness of the Engagement Summary Form provided to the reviewer. Completeness includes, but is not limited to, inclusion of all engagements performed, whether issued or not, under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and 2 engagements, as applicable, and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection. [Note that the aforementioned specific types of engagements would prompt a System Review instead of an Engagement Review and if present the firm and reviewer should contact its administering entity. However, the representation should be made nonetheless.]

~~d. Completeness and availability of the engagements with periods ending during the year under review. For financial forecasts or projections and agreed upon procedures, the schedule of engagements should include those with report dates during the year under review.~~

- e. Discussions of significant issues from reports or communications, or both, from other practice monitoring or external inspection programs, such as the Public Company Accounting Oversight Board's (PCAOB), with the review captain.

f. Accepting responsibility for understanding, tailoring, and augmenting the quality control materials that the firm develops or adopts for use in its accounting and auditing practice.

- fg. Other representations obtained by the review captain will depend on the circumstances and nature of the peer review.

Each representation indicated above must be included in the representations letter. The firm is not prohibited from making additional representations, including indicating that a specific condition does not exist. The representations should be addressed to the review captain (for example, "To John Smith, CPA" or on committee appointed review team reviews where appropriate, it may be addressed "To the Review Captain") and dated the same date that the firm submits the list of engagements to the reviewer or the administering entity. The written representations should be presented on firm letterhead and signed by those members of management whom the reviewer or the administering entity 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 (even though an Engagement Review). Such members of management normally include the managing partner and the partner or manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the reviewer should investigate the circumstances and consider the reliability of the representations made and any effect on the report.

**.08** Either the reviewer or the administering entity should discuss with the reviewed firm the 12-month period to be covered by the review. Ordinarily, the peer review year is the 12-month period ending 6 months prior to the peer review due date. The peer review due date is 3 years and 6 months after the firm's last peer review year-end, or, in the initial year, is 18 months after a firm enrolled or should have enrolled in the AICPA Peer Review Program. See paragraphs .13–.19 of section 1000 for timing of the reviews. That period should ordinarily end 3 to 5 months prior to the performance of the review and all reports selected for review should ordinarily have periods ended during the period (except for financial forecasts or projections and agreed upon procedures under the SSAEs, where the selection for review are those engagements with report dates during the year under review). Ordinarily, the year-end date should not change from one triennial review period to the next.

**.09** Based on the information provided, the reviewer or the administering entity will advise the firm of the types of engagements selected for review. (For example, the firm may have reported that Partner A issues review reports on 4

construction contractors, 2 retailers, and 10 manufacturers, but Partner B issues compilation reports on 30 medical practices and review reports on 5 restaurants. You may be asked to submit one of Partner A's review reports on a construction contractor and one of Partner B's compilation reports on a medical practice. The firm will select the specific engagements following those instructions.)

**.10** The number of engagements selected should ordinarily adhere to the following guidelines for reviewers:

- a. Select one engagement from each level of service performed by the firm:
  - Review of historical financial statements (performed under SSARS)
  - Compilation of historical financial statements with disclosures (performed under SSARS)
  - Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
  - Engagements performed under the SSAEs other than examinations
- b. One engagement should be selected from each *Responsible Party* listed previously in (a).
- c. Ordinarily, at least two engagements should be selected for review.

**.11** The preceding criteria are not mutually exclusive. The objective is to ensure that one engagement is selected for each responsible party, and one engagement is selected from each of the areas of service performed by the firm listed in item (a) in the previous list. Therefore, one of every type of engagement that a *Responsible Party* listed in item (a) in the previous list performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in item (a) in the previous list performed by the firm are covered.

**.12** For each engagement selected for review, the reviewed firm should submit the appropriate financial statements or information and the accountant's report, masking client identity if it desires, along with specified background information, representations about each engagement and the firm's documentation required by applicable professional standards for each of these engagements. The firm should also complete and submit an "Engagement Review Questionnaire" (see appendix B).

**.13** The engagements selected should be those with reports with financial statement periods ended during the review year.

**.14** The evaluation of each engagement submitted for review includes the following:

- a. Consideration of the financial statements or information and the related accountant's report on the compilation and review engagements performed under SSARS and engagements performed under SSAEs.
- b. Consideration of the documentation on the engagements performed via reviewing background and engagement profile information, representations made by the firm, and inquiries.
- c. Review of all other documentation required by applicable professional standards on the engagements.

**.15** An Engagement Review does not include a review of other documentation prepared on the engagements submitted for review (other than the documentation referred to previously), tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a System Review. Accordingly, 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. The review captain's report does indicate, however, whether anything came to the review captain's attention that caused him or her to believe that the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. The review captain should promptly inform the firm when an engagement is not performed and/or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions.

**.16** A firm may be dropped from the program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .12 in sufficient time to enable the reviewer to perform the Engagement Review prior to the required date, the reviewer should promptly advise the entity administering the

review of this fact. Appropriate fair procedures will be followed in these circumstances.

**.17** A peer review commences when the review team begins the review of engagements. A firm whose peer review has not commenced may resign from the program by submitting a letter of resignation to the board. However, once a peer review commences, a firm will not be able to resign from the program except as stated in the following circumstance. A firm will be permitted to resign once its peer review has commenced when the firm submits a letter pleading guilty, acknowledging its noncooperation with the program, waiving its right to a hearing, and 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 noncooperation with the program.

**.18** During the course of the review, the reviewer may have questions about the selected engagements. The firm is expected to respond promptly to questions raised during the review, whether those questions are raised orally or in writing.

**.19** When the CPA firm receives a report with a peer review rating of *pass*, the peer reviewer has concluded that nothing came to his or her attention that the CPA firm's work was not performed and/or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *pass with deficiencies* is issued when the reviewer concludes that nothing came to his or her attention that the work was not performed and/or reported on in conformity with applicable professional standards in all material respects, except in certain situations that are explained in detail in the report. A report with a peer review rating of *fail* is issued when the reviewer concludes that, as a result of the situations described in the report, the work was not performed and/or reported on in conformity with applicable professional standards in all material respects.

**.20** If the firm receives a report with a peer review rating of *pass with deficiencies* or *fail*, the reviewed firm should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the review captain or by the firm's peer review due date, whichever date is earlier. Prior to submitting the letter of response to the administering entity, the reviewed firm should submit the response to the review captain for review, evaluation, and comment. If the firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.

**.21** The reviewed firm should respond promptly to questions raised in the review in order to assist the review captain in reaching his or her conclusions. The reviewed firm should respond to all matters included on a Matter for Further Consideration (MFC) form. The reviewed firm should also respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related Finding for Further Consideration (FFC) forms. These responses should describe the plan the reviewed firm has implemented or will implement with respect to each finding. The FFC form also includes the reviewed firm's response that describes how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The completed FFC forms should be submitted to the review captain no later than two weeks after the review captain's discussion with the reviewed firm regarding the results of the review, or by the peer review due date, whichever is earlier. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity.

**.22** As part of the acceptance process, the firm may be requested to perform remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. If a firm does not perform the required actions, this will delay completion of the firm's peer review and could jeopardize the firm's enrollment in the program.

**.23** Based on the information on the FFC form, the firm may be required to have an implementation plan in addition to the plan described by the reviewed firm in its response to the findings on the FFC form(s). If a firm does not perform the required action in the implementation plan, it could jeopardize the firm's enrollment in the program.

**.24** The administering entity will not make the report on the review available to the public. A firm may be a voluntary member of one of the AICPA's audit quality centers or sections. These centers or sections mandate that firms make

certain peer review documents open to public inspection as a membership requirement. Other firms may elect not to opt out of the program's process for voluntary disclosure of peer review results to state boards of accountancy (SBOAs) where the firm's main office is located. Also, firms may voluntarily instruct their administering entity to make the peer review results available to certain other SBOAs. In these cases, the firm permits the AICPA, administering entities, or both, to make their peer review results available to the public or to SBOAs, respectively. However, the firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity as meeting the requirements of the program.

.25 The standards (sec. 1000) state that if a firm, subsequent to the year-end of its Engagement Review, performs an engagement performed under the SASs, Government Auditing Standards, or examination of prospective financial statements or examinations of a service organization's controls likely to be relevant to user entities' internal control over financial reporting under the SSAEs, the reviewed firm should (a) immediately notify the administering entity and (b) undergo a System Review. The System Review will ordinarily be due 18 months from the year-end of the engagement (for financial forecasts and projections, 18 months from the date of report) requiring a System Review or by the firm's next scheduled due date, whichever is earlier.

.26 When a firm is scheduled for an Engagement Review and subsequent to the peer review year-end but prior to the peer review due date, the firm will be issuing a report on an engagement performed under the SASs, Government Auditing Standards, or examination of prospective financial statements or examinations of a service organization's controls likely to be relevant to user entities' internal control over financial reporting under the SSAEs. The firm has the option of undergoing two peer reviews (an Engagement Review and then a System Review) or wait until the engagement causing the System Review is issued and undergo one System Review. However, firms must consider the effect of waiting because this may cause noncompliance with state boards of accountancy or other regulatory peer review requirements. Firms should discuss their intentions with the administering entity.

.27 Paragraph 5(h) of the standards noted that firms (and individuals) enrolled in the program have the responsibility to cooperate with the peer reviewer, administering entity, and the board in all matters related to the peer review, including taking remedial, corrective actions, or implementation plans as needed.

.28 The reviewed firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity as meeting the requirements of the program.

.29 Administering entities approved by the AICPA Peer Review Board are authorized to establish dues or registration fees within their individual jurisdictions to fund the administration of the program.

.30 Administering entities of the program shall also be authorized to establish the rates at which reviewers will be paid for service on review teams they form. Although the rates established may be stratified based on the size and nature of the reviewed firm, the rates should be used uniformly throughout the jurisdiction for review teams that it arranges. Firms that perform reviews and associations of CPA firms that assist their members in arranging such reviews may set their own rates in consultation with the reviewed firm.

.31 The AICPA Peer Review Board has adopted a resolution for dropping a firm's enrollment in the program for failing to pay the fees and expenses related to the administration of the program that have been authorized by the governing body of an administering entity or the fees and expenses of a review team formed by an administering entity (see Peer Review Standards Interpretation No. 5h-1, "Cooperating in a Peer Review" [AICPA, *Peer Review Program Manual*, PRP sec. 2000, interpretation 5h-1]).

.32 A firm whose peer review has not commenced may resign from the program by submitting a letter of resignation to the board. However, once a peer review commences, a firm will not be able to resign from the program except as stated in the following paragraph. A peer review commences when the review team begins the review of engagements in an Engagement Review. A firm will be permitted to resign once its peer review has commenced when the firm submits a letter pleading guilty, acknowledging its noncooperation with the program, waiving its right to a hearing, and 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 noncooperation with the program.

**.33** Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge the other on such matters. If, after discussion with the review captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement. For more information on disagreements, please review paragraph .98 of section 1000.



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Appendix A

ENGAGEMENT SUMMARY FORM<sup>2</sup>

Peer Review Due Date (from Background Form) \_\_\_\_\_

12-Month Peer Review Year-Ended<sup>3</sup> \_\_\_\_\_

| Industry of the client <sup>5</sup> | Level of service provided <sup>6</sup> | Number of engagements performed <sup>4</sup> |                     |                     |
|-------------------------------------|--|--|---------------------|---------------------|
|                                     |  | Responsible Party 1                          | Responsible Party 2 | Responsible Party 3 |
| _____                               | R                                      | _____  | _____               | _____               |
|                                     | C                                      | _____  | _____               | _____               |
|                                     | CO                                     | _____  | _____               | _____               |
|                                     | AT <sup>†</sup>                        | _____  | _____               | _____               |
| _____                               | R                                      | _____  | _____               | _____               |
|                                     | C                                      | _____  | _____               | _____               |
|                                     | CO                                     | _____  | _____               | _____               |
|                                     | AT <sup>†</sup>                        | _____  | _____               | _____               |
| _____                               | R                                      | _____  | _____               | _____               |
|                                     | C                                      | _____  | _____               | _____               |
|                                     | CO                                     | _____  | _____               | _____               |
|                                     | AT <sup>†</sup>                        | _____  | _____               | _____               |
| _____                               | R                                      | _____  | _____               | _____               |
|                                     | C                                      | _____  | _____               | _____               |
|                                     | CO                                     | _____  | _____               | _____               |
|                                     | AT <sup>†</sup>                        | _____  | _____               | _____               |
| _____                               | R                                      | _____  | _____               | _____               |
|                                     | C                                      | _____  | _____               | _____               |
|                                     | CO                                     | _____  | _____               | _____               |
|                                     | AT <sup>†</sup>                        | _____  | _____               | _____               |
| _____                               | R                                      | _____  | _____               | _____               |
|                                     | C                                      | _____  | _____               | _____               |
|                                     | CO                                     | _____  | _____               | _____               |
|                                     | AT <sup>†</sup>                        | _____  | _____               | _____               |

Total number of C-8<sup>‡</sup> engagements performed \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

Title \_\_\_\_\_

<sup>2</sup> Please refer to paragraph .06 for instructions on completing this form. Ordinarily, list engagements with reports with financial statement periods ended during the peer review year.

<sup>3</sup> Year-end should be 6 months prior to peer review due date from background form.

<sup>4</sup> Each monthly compilation engagement counts as one engagement.

<sup>5</sup> Please use the industry codes in this appendix.

<sup>6</sup> Please use the level of service codes in this appendix.

<sup>†</sup> Engagements subject to selection for review ordinarily should be those with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection.

<sup>‡</sup> Compilation engagements when the compiled financial statements are not expected to be used by a third party (management use only) where an engagement letter was issued instead of a report.

**Level of Service Codes**

Please use the following codes to reflect the level of service provided:

- R Review of historical or personal financial statements
- C Compilation of historical or personal financial statements with disclosures
- CO Compilation of historical or personal financial statements that omits substantially all disclosures
- C-8 Compilation engagements when the compiled financial statements are not expected to be used by a third party (management use only), where an engagement letter was issued instead of a report
- AT Attestation services on financial statements or information

**Industry Codes**

|     |   |     |   |
|-----|---|-----|---|
| 110 | Agricultural, Livestock, Forestry, & Fishing  | 260 | Not-for-Profit Organization (including Voluntary Health and Welfare)  |
| 115 | Airlines                                      | 268 | Personal Financial Statements   |
| 120 | Auto Dealerships                              | 295 | Real Estate Investment Trusts   |
| 125 | Banking                                       | 300 | Reinsurance Companies   |
| 145 | Casinos                                       | 308 | Rural Utilities Service Borrowers                                     |
| 150 | Colleges and Universities                     | 310 | Savings and Loan Associations   |
| 155 | Common Interest Realty Associations           | 313 | Service Organizations Controls (SOC 2 Reports)                        |
| 165 | Construction Contractors                      | 314 | Service Organizations Controls (SOC 3 Reports)                        |
| 175 | Credit Unions                                 | 320 | School Districts  |
| 180 | Extractive Industries—Oil and Gas             | 325 | State and Local Government  |
| 185 | Extractive Industries—Mining                  | 330 | Telephone Companies   |
| 186 | Federal Student Financial Assistance Programs | 335 | Utilities   |
| 190 | Finance Companies                             | 380 | Defined Contribution Plans—Full and Limited Scope (Excluding 403(b))  |
| 195 | Franchisors                                   | 383 | Defined Contribution Plans—Full and Limited Scope (403(b) Plans Only) |
| 200 | Property and Casualty Insurance Companies     | 390 | Defined Benefit Plans—Full and Limited Scope                          |
| 205 | Government Contractors                        | 400 | ERISA Health & Welfare Plans  |
| 210 | Health Maintenance Organizations              | 403 | Employee Stock Ownership Plans (ESOP)                                 |
| 216 | Hospitals                                     | 405 | Other ERISA Plans   |
| 217 | Nursing Homes                                 | 440 | Carrying Broker-Dealers*  |
| 222 | HUD Programs                                  | 450 | Non-Carrying Broker-Dealers*  |
| 230 | Investment Companies and Mutual Funds         | 002 | Other (Describe)  |
| 240 | Life Insurance Companies                      |     |   |
| 250 | Mortgage Banking                              |     |   |

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\* Carrying broker-dealers include all broker-dealers that clear customer transactions, carry customer accounts or hold custody of customer cash or securities. Examples of carrying broker-dealers include (a) clearing broker-dealers who receive and execute customer instructions, prepare trade confirmations, settle the money related to customer trades and arrange for the book entry (or physical movement) of the securities and (b) carrying broker-dealers that hold customer accounts or clear customer trades for introducing broker-dealers. Non-carrying broker-dealers are those broker-dealers that do not clear customer transactions, carry customer accounts, or hold custody of customer cash or securities. Examples of non-carrying broker-dealers are (a) introducing broker-dealers that introduce transactions and accounts of customers or other broker-dealers to another registered broker-dealer that carries such accounts on a fully disclosed basis and that does not receive or hold customer or other broker-dealers securities and (b) a broker-dealer whose business does not involve customer accounts, such as proprietary trading firms, investment banking firms, and firm's that sell interest in mutual funds or insurance products. If you have any question about whether the engagements you perform of broker-dealers are carrying or non-carrying, please contact the AICPA Peer Review technical hotline at [prptechnical@aicpa.org](mailto:prptechnical@aicpa.org) or 919-402-4502, option 3.

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**Appendix B**  
**AICPA Peer Review Program**  
**ENGAGEMENT QUESTIONNAIRE**

(To be completed by Reviewed Firm)

FIRM NAME \_\_\_\_\_

**General Data**

Engagement Name or Code No. \_\_\_\_\_ (If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, and so on and mark the financial statements correspondingly.)

|  |              |          |
|--|--------------|----------|
| Period covered by financial statements _____ | Total assets | \$ _____ |
|--|--------------|----------|

|  |                |          |
|--|----------------|----------|
| Date of report (engagement letter if no report was issued) _____ | Long-term debt | \$ _____ |
|--|----------------|----------|

|  |        |          |
|--|--------|----------|
| Date report or financial statements released _____ | Equity | \$ _____ |
|--|--------|----------|

|                               |           |          |
|-------------------------------|-----------|----------|
| Major lines of business _____ | Net sales | \$ _____ |
|-------------------------------|-----------|----------|

|       |            |          |
|-------|------------|----------|
| _____ | Net income | \$ _____ |
|-------|------------|----------|

At the time the report or financial statement(s) on the client's current year was issued or released, were there billed or unbilled fees, or note(s) receivable arising from such fees, that remained unpaid for any professional services provided more than one year prior to the date of the report? Yes  No

|  | <i>Name</i> | <i>Hours on engagement</i> | <i>Number of years on job</i> |
|--|-------------|----------------------------|-------------------------------|
| Accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner) | _____       | _____                      | _____                         |
| Accountant in charge of field work (for example, manager, supervisor, or senior accountant)                    | _____       | _____                      | _____                         |
| Other personnel  | _____       | _____                      | _____                         |

**Nature of Entity:**

- Independent entity
- Consolidated or combined group
- Subsidiary
- Other (explain) \_\_\_\_\_

**Nature of Service:**

Accounting and Review Services—

- Review
- Compilation  
\_\_\_\_\_ with disclosures \_\_\_\_\_ omits disclosures

Attest Services—

- Financial forecasts and projections
- Reviews of written assertions
- Agreed-upon procedures
- Other (describe) \_\_\_\_\_

**Financial Statements Included:**

- Balance sheet
- Income statement
- Statement of cash flows
- Statement of retained earnings
- Supplementary information (describe) \_\_\_\_\_  
\_\_\_\_\_
- Other (explain) \_\_\_\_\_  
\_\_\_\_\_

**Accounting Basis for Financial Statements:**

- Generally accepted accounting principles
- Cash basis
- Income tax basis
- Other (explain) \_\_\_\_\_  
\_\_\_\_\_

|   | <u>N/A</u>               | <u>Yes</u>               | <u>No</u>                | <u>Ref.</u> |
|---|--------------------------|--------------------------|--------------------------|-------------|
| <b>Specific Engagement Questions</b>  |                          |                          |                          |             |
| (If this is a compilation engagement when the compiled financial statements are not expected to be used by a third party (management use only), where an engagement letter was issued instead of a report, question D and E should be completed, and the questions under J, and K should be completed in lieu of the questions under A, B, C, and F-I.)   |                          |                          |                          |             |
| A. Is the firm independent with respect to the entity? If “no,” answer questions 1, 2, and 3 and then skip to question C.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 1. Did the firm limit its service to the compilation of financial statements?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 2. Did the compilation report include a statement that the firm was not independent?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 3. If the reason(s) the firm was not independent was disclosed, did the disclosure include all of the reasons independence was impaired?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| B. Did the firm provide any non-attest services (non-attest services include but are not limited to: bookkeeping, payroll, and tax services) to this engagement? If “yes,” answer the following questions:  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 1. Was the accountant in compliance with Interpretation 101-3, “Performance of Nonattest Services?” [ET sec. 101 par. .05 and related ethics rulings in ET sec. 191]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 2. Did the firm document its understanding with the client as required by Interpretation 101-3? Please submit the documentation to the reviewer.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| C. Did the entity have any balances, transactions, events, or agreements of the following types during the year covered by the financial statements? If the answer is “yes,” please indicate in the third column entitled “Ref.” where the matter is disclosed—using the codes “R” for the accountant’s report, “F” for the financial statements, or “FN” for footnotes. If the answer is “yes” but the matter is not disclosed, please provide sufficient information in the “commentary” section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for, and/or disclosed. (Do not answer this question for engagements to compile historical, personal, or prospective financial statements that omit substantially all disclosures or attest services previously marked “other.”) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 1. Accounting changes.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 2. Business combinations.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 3. Related party transactions (including receivables and payables from officers, employees, and affiliates).  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 4. Leasing arrangements.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 5. Pension plans.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 6. Postemployment and postretirement plans other than pensions.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 7. Stock option or purchase plans.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 8. Contingencies.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 9. Commitments.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |

|   | <u>N/A</u>               | <u>Yes</u>               | <u>No</u>                | <u>Ref.</u> |
|---|--------------------------|--------------------------|--------------------------|-------------|
| 10. Significant events between the balance sheet and report dates.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 11. Pledging of assets.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 12. Loan agreements or covenants imposing significant restrictions.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 13. Capital stock with significant rights or preferences.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 14. Treasury stock.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 15. Discontinued operations.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 16. Extraordinary items.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 17. Unusual or infrequent items.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 18. Restrictions on cash balances.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 19. Allowance for doubtful accounts.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 20. Noncash transactions.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 21. Investments in debt or equity securities.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 22. Financial instruments with concentrations of credit risk.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 23. Financial instruments with off-balance sheet risk.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 24. Other valuation accounts.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 25. Income tax expense, benefits, temporary differences, investment tax credits, and other information on the effect of income taxes.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 26. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 27. Economic dependence on customers.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 28. Troubled debt restructurings.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 29. Unusual or specialized accounting policies.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 30. Research and development costs.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 31. Computer software costs.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 32. Product financing arrangements.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 33. Foreign operations.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 34. Foreign currency transactions.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 35. Nonmonetary transactions.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 36. Going-concern considerations. [AU-C sec. 570 par. .10-.11]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| D. Were there any disagreements with the client on this engagement that, if not resolved to the firm's satisfaction, would have caused the firm to modify its report (or engagement letter when the compiled financial statements are not expected to be used by a third party where no report was issued) or to withdraw from the engagement? If the answer is "yes," provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for, disclosed, or both. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |

|  | <u>N/A</u>               | <u>Yes</u>               | <u>No</u>                | <u>Ref.</u> |
|--|--------------------------|--------------------------|--------------------------|-------------|
| E. If the accountant (firm) was engaged to perform an audit in accordance with GAAS, prior to agreeing to change the engagement to a review or compilation, or a review rather than a compilation, did the accountant consider: (a) the reasons for the client’s request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by other circumstances, (b) the additional audit effort required to complete the audit and (c) the estimated additional cost to complete the audit? [AR 80.56–.61 for compilations; AR 90.63–.68 for reviews] | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| F. If this engagement was a review:  | <input type="checkbox"/> |                          |                          |             |
| 1. Did the accountant establish an understanding with management regarding the services to be performed and document the understanding through a written communication with the client? Did the accountant ensure that the understanding included the objectives of the engagement, management’s responsibilities, the accountant’s responsibilities, and the limitations of the engagement? [AR 90.03–.06]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 2. Did the accountant possess an understanding of the industry in which the entity operates, including the accounting principles and practices generally used in the industry, sufficient to assist the accountant with determining the specific nature, timing and extent of review procedures to be performed? [AR 90.08–.09]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 3. Did the accountant obtain knowledge about the entity sufficient to assist the accountant with determining the specific nature, timing and extent of review procedures to be performed? [AR 90.10–.13]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 4. Did the accountant (firm) obtain a representation letter from members of management whom the accountant (firm) believes are responsible for and knowledgeable directly or through others in the organization, about the matters covered in the representation letter? [AR 90.22]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 5. Did the accountant become aware that information supplied by the client was incorrect, incomplete or otherwise unsatisfactory; did the accountant perform additional procedures as deemed necessary? [AR 90.21]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 6. Is the accountant’s engagement documentation sufficiently detailed to provide a clear understanding of the work performed, the review evidence obtained and its source and the conclusions reached? [AR 90.25]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| G. If the engagement was a compilation:  |                          |                          |                          |             |
| 1. Did the accountant establish an understanding with management regarding the services to be performed and document the understanding through a written communication with the client? Did the accountant ensure that the understanding included the objectives of the engagement, management’s responsibilities, the accountant’s responsibilities, and the limitations of the engagement? [AR 80.02–.05]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 2. Did the accountant possess an understanding of the industry in which the client operates, including the accounting principles and practices generally used in the industry sufficient to enable the accountant to compile financial statements that are appropriate in form for an entity operating in that industry? [AR 80.06]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |

|  | <u>N/A</u>               | <u>Yes</u>               | <u>No</u>                | <u>Ref.</u> |
|--|--------------------------|--------------------------|--------------------------|-------------|
| 3. Did the accountant obtain knowledge about the client, including an understanding of the client’s business and an understanding of the accounting principles and practices used by the client? [AR 80.08-80.09]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 4. Is the accountant’s engagement documentation sufficient in detail to provide a clear understanding of the work performed? [AR 80.14]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 5. Did the accountant’s documentation include the following: [AR 80.15]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| a. The engagement letter documenting the understanding with the client?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| b. Any findings or issues that, in the accountant's judgment, are significant?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| c. Communications, whether oral or written, to the appropriate level of management or others charged with governance, regarding fraud or illegal acts that come to the accountant’s attention?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| H. If this engagement was an agreed-upon procedures engagement:  | <input type="checkbox"/> |                          |                          |             |
| 1. Was the report dated the date of completion of the agreed-upon procedures? [AT sec. 201 par. .34]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 2. If a written assertion was required in the circumstances, did the responsible party provide the assertion in writing to the firm prior to the issuance of your report? [AT sec. 201 par. .09]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 3. Did the firm and the specified parties agree upon the procedures performed? [AT sec. 201 par. .06c]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 4. Was the specific subject matter to which the procedures were applied subject to reasonably consistent estimation or measurement? [AT sec. 201 par. .06e]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 5. Did the firm and the specified parties agree upon the criteria used in the determination of findings? [AT sec. 201 par. .06f]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 6. Were the applied procedures expected to result in reasonably consistent findings using the criteria? [AT sec. 201 par. .06g]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 7. Did you communicate with and obtain affirmative acknowledgment on the sufficiency of the procedure from each of the specified parties? (Communication can be either directly or via appropriate alternative procedures such as the following: comparing the procedures applied to written requirements of the specified parties, discussing the procedures applied with appropriate representatives of the specified parties involved, or reviewing relevant contracts with or correspondence from the specified parties.) [AT sec. 201 par. .07] | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 8. Did the firm establish an understanding with the client regarding the terms of the engagement, preferably in an engagement letter? [AT sec. 201 par. .10]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 9. If the work of a specialist was used, did the firm and the specified parties explicitly agree to the involvement of the specialist in assisting the firm in the performance of the engagement? [AT sec. 201 par. .20]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |



|   | <u>N/A</u>               | <u>Yes</u>               | <u>No</u>                | <u>Ref.</u> |
|---|--------------------------|--------------------------|--------------------------|-------------|
| 10. Were the agreed-upon procedures performed entirely by the firm except for those agreed by the firm and the specified parties that were performed by a specialist? [AT sec. 201 par. .21]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 11. Was the firm requested to add additional parties, and if so, did the firm obtain affirmative acknowledgment (normally in writing) from the additional parties agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures? [AT sec. 201 par. .36]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 12. If the firm was requested to change from another form of engagement to an engagement to apply agreed-upon procedures, did the firm consider the following before agreeing to the change:  | <input type="checkbox"/> |                          |                          |             |
| a. The possibility that certain procedures performed as part of another type of engagement were not appropriate for inclusion in an agreed-upon procedures engagement? [AT sec. 201 par. .42a]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| b. The reason given for the request, particularly the implications of a restriction on the scope of the original engagement or the matters reported? [AT sec. 201 par. .42b]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| c. The additional effort required to complete the original engagement? [AT sec. 201 par. .42c]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| d. If applicable, the reasons for changing from a general-use report to a restricted-use report? [AT sec. 201 par. .42d]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 13. If the practitioner obtains a representation letter as a means of obtaining certain representations from the responsible party, does the letter disclose all known matters contradicting the subject matter or the assertion, and any communication from regulatory agencies affecting the subject matter or the assertion has been disclosed to the practitioner? [AT sec. 201 par. .38] | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 14. If the practitioner requested a representation letter and the responsible party refused to sign such a letter, did the accountant do one of the following: (a) disclose in the report the inability to obtain representations, (b) withdraw from the engagement, or (c) change the engagement to another form of engagement? [AT sec. 201 par. .39]                                       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| I. If this engagement was an other attestation engagement:  | <input type="checkbox"/> |                          |                          |             |
| 1. Is the report dated ordinarily on the date of completion of the other attestation engagement procedures? [AT sec. 101 par. .90i; sec. 301 par. .33k; sec. 301 par. .55q; sec. 401 par. .13j; sec. 501 par. .55k; sec. 601 par. .24p; sec. 601 par. .55k; sec. 701 par. .69k; and sec. 701 par. .85m]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 2. If the engagement was to determine the effectiveness of internal control over financial reporting, were the following conditions met for performing an examination? [AT sec. 501 par. .04]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| a. Did management accept responsibility for the effectiveness of the entity's internal control?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| b. Was there sufficient evidence to support or was evidence developed to support the responsible party's evaluation?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |

|  | <u>N/A</u>               | <u>Yes</u>               | <u>No</u>                | <u>Ref.</u> |
|--|--------------------------|--------------------------|--------------------------|-------------|
| c. Did the responsible party present its written assertions about the effectiveness of the entity’s internal control in a separate report that accompanied the accountant’s report or in a representation letter to the practitioner? [AT sec. 501 par. .05]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| d. Did the practitioner obtain written representations from the responsible party, and was the representation letter properly dated? [AT sec. 501 par. .52]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 3. If the engagement was about the entity’s compliance with specified requirements or the effectiveness of internal control over compliance, were the following conditions met for performing the engagement on management’s written assertions?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| a. Did management assert that they evaluated and accepted responsibility for the compliance with specified requirements and the effectiveness of the entity’s internal control over compliance? [AT sec. 601 par. .09]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| b. Did management make an assertion about the entity’s compliance with specified requirements? [AT sec. 601 par. .10b]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| c. Was there sufficient evidence to support management’s evaluation? [AT sec. 601 par. .10c]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| d. Were the written assertions about compliance with specified requirements or the effectiveness of the entity’s internal control over compliance made in a representation report for restricted use or in a separate report for general use? [AT sec. 601 par. .11a-.11b]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| e. Were the assertions so specific that the same or similar measurement and disclosure criteria would lead to similar conclusions? [AT sec. 601 par. .12]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 4. If the engagement was on pro forma financial information, did the firm obtain written representations from management concerning their  | <input type="checkbox"/> |                          |                          |             |
| a. responsibility for the assumptions used in determining the pro forma adjustments and assumptions? [AT sec. 401 par. .10h]   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| b. belief that the assumptions provide a reasonable basis for presenting all of the significant effects directly attributable to the transaction (or event), that the related pro forma adjustments give appropriate effect to those assumptions, and that the pro forma column reflects the proper application of those adjustments to the historical financial statements? [AT sec. 401 par. .10h] | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| c. belief that the significant effects directly attributable to the transaction (or event) are appropriately disclosed in the pro forma financial statements? [AT sec. 401 par. .10h]  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| J. If the engagement was a compilation when the compiled financial statements are not expected to be used by a third party (management use only) where no report was issued, did the documentation of the understanding include the following: [AR 80.03-.05]  | <input type="checkbox"/> |                          |                          |             |
| 1. The nature and limitations of the services to be performed?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |

|   | <u>N/A</u>               | <u>Yes</u>               | <u>No</u>                | <u>Ref.</u> |
|---|--------------------------|--------------------------|--------------------------|-------------|
| 2. A compilation is limited to presenting in the form of financial statements information that is the representation of management?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 3. The financial statements will not be audited or reviewed?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 4. No opinion or any other form of assurance on the financial statements will be provided?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 5. Management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 6. Acknowledgement of management's representation and agreement that the financial statements are not to be used by third parties?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 7. If non-attest services are provided, that management is responsible for making decisions and evaluating and accepting responsibility for the services?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 8. The engagement cannot be relied upon to disclose errors, fraud, or illegal acts?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 9. Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 10. Substantially all disclosures (and statement of cash flows, if applicable) required by the applicable reporting framework may be omitted?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 11. Lack of independence?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| 12. A reference to supplementary information?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |
| K. Did the accountant include a reference on each page of the financial statements restricting their use such as "Restricted for management's use only," or "Solely for the information and use by the management of [Name of Entity] and not intended to be and should not be used by any other party?" [AR 80.23] | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____       |

Responsible Party's Signature \_\_\_\_\_ Date \_\_\_\_\_

**Explanation of References:**

- AU-C Reference to section number for Clarified Statements on Auditing Standards in *AICPA Professional Standards*
- AR Reference to section number for Statements on Standards for Accounting and Review Services in *AICPA Professional Standards*
- AT Reference to section number for Statements on Standards for Attestation Engagements in *AICPA Professional Standards*



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**Appendix C**  
**Entities Administering the AICPA Peer Review Program**

| <i>State where main<br/>office of firm is<br/>located</i> | <i>Name of entity administering AICPA Peer<br/>Review Program</i> | <i>Telephone no.</i>      |
|---|---|---------------------------|
| Alabama   | Alabama Society of CPAs   | (334) 834-7650            |
| Alaska  | California Society of CPAs  | (650) 802-2486            |
| Arkansas  | Arkansas Society of CPAs  | (501) 664-8739            |
| Arizona   | California Society of CPAs  | (650) 802-2486            |
| California  | California Society of CPAs  | (650) 802-2486            |
| Colorado  | Colorado Society of CPAs  | (303) 773-2877, ext. 105  |
| Connecticut   | Connecticut Society of CPAs                                       | (860) 258-4800, ext. 213  |
| Delaware  | Pennsylvania Institute of CPAs                                    | (215) 496-9272            |
| District of Columbia                                      | Virginia Society of CPAs  | (804) 270-5344            |
| Florida   | Florida Institute of CPAs   | (850) 224-2727, ext. 250  |
| Georgia   | Georgia Society of CPAs   | (404) 504-2958            |
| Guam  | Oregon Society of CPAs  | (503) 641-7200            |
| Hawaii  | Hawaii Society of CPAs  | (808) 537-9475            |
| Idaho   | Idaho Society of CPAs   | (208) 344-6261            |
| Illinois  | Illinois CPA Society  | (312) 993-0407, ext. 276  |
| Indiana   | Indiana CPA Society   | (317) 726-5000            |
| Iowa  | Iowa Society of CPAs  | (515) 223-8161            |
| Kansas  | Kansas Society of CPAs  | (785) 272-4366            |
| Kentucky  | Kentucky Society of CPAs  | (502) 266-5272            |
| Louisiana   | Society of Louisiana CPAs   | (504) 464-1040            |
| Maine   | New England Peer Review, Inc.                                     | (603) 623-3513            |
| Maryland  | Maryland Association of CPAs                                      | (443) 632-2330            |
| Massachusetts   | Massachusetts Society of CPAs                                     | (617) 556-4000            |
| Michigan  | Michigan Association of CPAs                                      | (248) 267-3700            |
| Minnesota   | Minnesota Society of CPAs   | (952) 831-2707            |
| Mississippi   | Mississippi Society of CPAs                                       | (601) 856-4244            |
| Missouri  | Missouri Society of CPAs  | (314) 997-7966            |
| Montana   | Montana Society of CPAs   | (406) 442-7301            |
| Nebraska  | Nevada Society of CPAs  | (775) 826-6800            |
| Nevada  | Nevada Society of CPAs  | (775) 826-6800            |
| New Hampshire   | New England Peer Review, Inc.                                     | (603) 623-3513            |
| New Jersey  | New Jersey Society of CPAs  | (973) 226-4494            |
| New Mexico  | New Mexico Society of CPAs  | (505) 246-1699            |
| New York  | New York State Society of CPAs                                    | (212) 719-8300            |
| North Carolina  | North Carolina Association of CPAs                                | (919) 469-1040            |
| North Dakota  | North Dakota Society of CPAs                                      | (701) 775-7100            |
| Ohio  | Ohio Society of CPAs  | (614) 764-2727            |
| Oklahoma  | Oklahoma Society of CPAs  | (405) 841-3800, ext.3805  |
| Oregon  | Oregon Society of CPAs  | (503) 641-7200            |
| Pennsylvania  | Pennsylvania Institute of CPAs                                    | (215) 496-9272            |
| Puerto Rico   | Colegio de Contadores Publicos Autorizados                        | (787) 754-1950            |
| Rhode Island  | New England Peer Review, Inc.                                     | (603) 623-3513            |
| South Carolina  | South Carolina Association of CPAs                                | (803) 791-4181, ext. 107  |
| South Dakota  | Oklahoma Society of CPAs  | (405) 841-3800, ext. 3805 |
| Tennessee   | Tennessee Society of CPAs   | (615) 377-3825            |
| Texas   | Texas Society of CPAs   | (972) 687-8617            |
| Utah  | Nevada Society of CPAs  | (775) 826-6800            |
| Vermont   | New England Peer Review, Inc.                                     | (603) 623-3513            |
| Virgin Islands  | Pennsylvania Institute of CPAs                                    | (215) 496-9272            |
| Virginia  | Virginia Society of CPAs  | (804) 270-5344            |
| Washington  | Washington Society of CPAs  | (425) 586-1132            |
| West Virginia   | West Virginia Society of CPAs                                     | (304) 342-5461            |
| Wisconsin   | Wisconsin Institute of CPAs                                       | (262) 785-0445, ext. 3025 |
| Wyoming   | Nevada Society of CPAs  | (775) 826-6800            |

[The next page is 6201.]

**QCPP and Guidelines for Review of QCPP**

**PRP Section 4300 Quality Control Policies and Procedures Documentation Questionnaire for a Sole Practitioner With No Personnel**

F. Monitoring

The firm considers and evaluates, on an ongoing basis, the appropriateness of the design and effectiveness of the operation of its quality control policies and procedures.

Describe the firm's approach for determining the completeness of the engagement population upon which the inspection and peer review samples are based.

**PRP Section 4400 Quality Control Policies and Procedures Documentation Questionnaire for Firms With Two or More Personnel**

F. Monitoring

The firm considers and evaluates, on an ongoing basis, compliance with its policies and procedures and communicates the results of the monitoring process to relevant firm personnel at least annually.

**PRP Section 4500 Guidelines for Review of Quality Control Policies and Procedures for a Sole Practitioner With No Personnel**

F. Monitoring

7. Did you evaluate whether

b. the procedures performed were timely and covered

iii. an appropriate methodology to determine whether the engagement population was complete?

**PRP Section 4600 Guidelines for Review of Quality Control Policies and Procedures for Firms With Two or More Personnel**

F. Monitoring

9. Did you evaluate whether the following were true?

b. The procedures performed were timely and covered these areas:

iii. methodology to determine whether the engagement population was complete is appropriate?

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**Agenda Item 1.10A**

**Firms Dropped from the AICPA Peer Review Program for Non-Cooperation between  
April 15, 2014 and July 15, 2014, and Not Enrolled as of July 15, 2014.**

| <b>Firm Number</b> | <b>Firm Name</b>   | <b>State</b> | <b>Admin By</b> |
|--------------------|--|--------------|-----------------|
| 10115093           | Moody and Hodgson  | AL           | AL              |
| 5773733            | Barry E. Brock CPA & Associates                          | CA           | CA              |
| 5737442            | Charles Guenther CPA                                     | CA           | CA              |
| 10082527           | Lehman & Associates                                      | CA           | CA              |
| 10124556           | Lois W. Manolakas, CPA                                   | CA           | CA              |
| 10149099           | Michael P. Lynch, CPA, Inc.                              | CA           | CA              |
| 1120343            | William M. Stoll   | CA           | CA              |
| 4343245            | Keller, CPA, LLC   | CO           | CO              |
| 4108840            | B. Rodney Crowe, CPA, P.C.                               | GA           | GA              |
| 10129675           | David C. Crews CPA, P. C.                                | GA           | GA              |
| 4438196            | Kathy Pacifici, CPA PC                                   | GA           | GA              |
| 5385917            | Leslie M Ramos CPA PC                                    | GA           | GA              |
| 10033078           | R. W. Young & Company, P. C.                             | GA           | GA              |
| 4043097            | TrustNet Assurance Services, LLC                         | GA           | GA              |
| 10096883           | Wayne Ivey Bowen   | GA           | GA              |
| 4588841            | William A Amos, CPA                                      | GA           | GA              |
| 10134450           | Crandall & Oseen   | ID           | ID              |
| 4708069            | Lamprecht & Associates                                   | ID           | ID              |
| 10126254           | Coyle & Associates, LLC                                  | IL           | IL              |
| 23920              | Ashby & Company P.C.                                     | IN           | IN              |
| 10104372           | Gehrig & Homberg, P. C.                                  | IN           | IN              |
| 5188448            | Dennis J. Edwards CPA, P.A.                              | KS           | KS              |
| 6280249            | Lewis P. Herman  | KS           | KS              |
| 10136773           | Schultz & Associates, PLLC                               | KY           | KY              |
| 6448430            | Brent A Silva CPA, A Professional Accounting Corporation | LA           | LA              |
| 5293923            | Elliott H. Ring, CPA, P.C.                               | MI           | MI              |
| 5434271            | Stanek & Associates, CPAs                                | MI           | MI              |
| 10137920           | Stanek & Company, CPAs, P.C.                             | MI           | MI              |
| 10152440           | Deborah E Lunyou CPA, PC                                 | MO           | MO              |
| 10152970           | Hathcock & Co PC   | MO           | MO              |
| 81061344           | Leonard & Pappas   | MO           | MO              |
| 10152303           | Charles G. Bott and Company                              | NJ           | NJ              |
| 6135675            | D. F. O'Brien & Co.                                      | NJ           | NJ              |
| 1047337            | Daryl Dean Reynolds                                      | OH           | OH              |
| 10116739           | Bloch and Company, P. C.                                 | OK           | OK              |
| 10127223           | Ternberg & Coombs LLP                                    | OR           | OR              |
| 10155385           | David W Hagstrom   | PA           | PA              |
| 4039450            | Hamonko Group, LLC                                       | PA           | PA              |



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| <b>Firm Number</b> | <b>Firm Name</b>                                       | <b>State</b> | <b>Admin By</b> |
|--------------------|--|--------------|-----------------|
| 10078627           | Hartnett Accounting and Tax Service PA                 | PA           | PA              |
| 10112458           | Larry M. Carroll                                       | PA           | PA              |
| 10134214           | Stone, Trembly & Associates, Inc                       | PA           | PA              |
| 10012216           | Luis E. Cintron & Co., LLC                             | PR           | PR              |
| 1063323            | Anton Joseph Buxkemper III                             | TX           | TX              |
| 10122854           | Edwin L. Roberts                                       | TX           | TX              |
| 10114227           | Raul Artemio Acevedo CPA                               | TX           | TX              |
| 5413996            | Roger Vester Inc.                                      | TX           | TX              |
| 6431249            | Samuel Amoo & Associates, Certified Public Accountants | TX           | TX              |

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**Firms Whose Enrollment Was Terminated from the AICPA Peer Review Program**

**None**

## Update on the MFC Project

### Why is this on the Agenda?

Since December 2012, peer review has been collecting data on matters identified during a firm's peer review. The MFC Project is about capturing this information, using it to learn about the trouble spots, and developing resources within the AICPA that will allow firms to have a more focused remedy for their findings. Our ultimate goal is to assist firms with the hurdles they've faced in the past, provide them with tools to drive up their quality and overall "up the game on quality" in the profession. With this project and the related collaborative efforts we believe we'll make a significant positive impact on audit quality in the profession.

The Peer Review Team is analyzing the MFCs quarterly and posting trends on the [Examples of Matters Peer Reviews](#) webpage. These trends are shared within the Institute for use in the development of resources and communicated via a Reviewer Focus. For the most recent trends identified, refer to Agenda Item 1.8B-1.

### Feedback Received

N/A

### PRISM Impact

N/A

### AE Impact

N/A

### Communications Plan

Peer Review will communicate findings from the MFC project in a quarterly Reviewer Focus Article.

### Manual Production Cycle (estimated)

N/A

### Effective Date

N/A

### Board Consideration

N/A. Informational only.

**Examples of Matters in Peer Reviews  
Engagements with Year-Ends between 4/30/13 and 6/30/14<sup>1</sup>**

The AICPA is using data collected during peer reviews to learn about trouble spots and is developing resources within the AICPA that will allow firms to have a more focused remedy for their findings. Our ultimate goal is to assist firms with the hurdles they've faced in the past, provide them with tools to drive up their quality and overall "up the game on quality" in the profession.

See below for examples of matters related to the following areas:

[Professional Standards](#)

[Clarified Auditing Standards](#)

[Accounting and Review Services](#)

[Attestation Standards](#)

[Code of Professional Conduct](#)

[Statements on Quality Control](#)

[FASB Accounting Standards Codification](#)

[Practice Areas](#)

[Governmental, A-133, and HUD](#)

[ERISA](#)

[Broker-Dealers](#)

[Service Organization Control Reports](#)

[Banking, including FDICIA](#)

[Not for profit](#)

**Professional Standards**

*Clarified Auditing Standards*

- The auditor's report was dated significantly earlier than the date of the review of the workpapers and the release date.
- Failure to appropriately document planning procedures, including risk assessment (and linkage of risks to procedures performed), planning analytics, and internal control testing
- Representation letters that were dated incorrectly, did not cover the appropriate periods or were missing required representations.
- Failure to communicate and/or document required communications with those charged with governance.
- The audit documentation did not contain sufficient competent evidence to support the firm's opinion on the financial statements.

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<sup>1</sup> Due to the timing of when peer reviews are performed, there is a lag between the year-end of the engagement and when a matter is included in this report. Peer Reviews are due 6 months after a firm's peer review year end. A firm's peer review would cover engagements with year ends during the peer review year (report dates for projections and AUPs). As an example, if a firm's peer review year is January 1, 2013 to December 31, 2013 its peer review is not due until June 30, 2014. Therefore a January 31, 2013 year end audit would not be included in the MFC data until approximately June 30, 2014. However, a December 31, 2013 year end audit in the same scenario would be included in the MFC data around June 30, 2014 as well. Refer to [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary) for more information about peer review.

We prepare our analysis on MFCs for engagements with year ends (report dates for projections and AUPs) from the previous 15 months. By using a 15 month period, we can ensure we are providing information based on the most recent engagements, including a calendar year end. Since this is a new process, we've combined the last two reports (15 month periods ending April 1 and July 1, 2015) and consolidated the information.

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## *Accounting and Review Services*

### *Compilations*

- Reports were not prepared in accordance with professional standards. The following matters were noted:
  - Not updated for SSARS 19
  - No headings on the report
  - Inappropriate titles
  - No explanation of the degree of responsibility the accountant is taking with respect to supplementary information.
  - Failure to mention that substantially all disclosures are omitted
- Failure to obtain an engagement letter or revise the letter for SSARS 19.
  - Other miscellaneous matters were noted relative to the engagement letter including failure to note the lack of independence or the letter referred to GAAP on an OCBOA engagement.

### *Reviews*

- Representation letters that were dated incorrectly or did not cover the appropriate periods.
- Reports were not updated for SSARS 19 or had inappropriate titles
- Failure to obtain an engagement letter or revise the letter for SSARS 19

### *Attestation Standards*

(Note: Most MFCs in this area are related to AUPs or SOCs. SOC related MFCs are included in the practice area section below.)

- Various matters were identified related to AUP reports, most frequently failure to include the word “independent” in the report title.
- Other report matters included failure to include:
  - A title
  - Reference of the AICPA attestation standards
  - A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
  - Identification of the subject matter or the engagement or written assertion or the character of the engagement.
- Failure to include all elements required by attestation standards in the engagement letter.

### *Code of Professional Conduct*

- Failure to establish and document in writing their understanding with the client with regard to non-attest services provided.

### *Statements on Quality Control*

- Monitoring
  - QC document did not include monitoring procedures
  - Monitoring procedures did not include review of all elements of quality control
  - Results of monitoring and inspections were not documented
- Engagement Performance
  - Criteria for Engagement Quality Control Review not established
  - EQCR not performed on engagements that meet the firm’s criteria
- Human Resources
  - Policies not sufficient to ensure partners and staff obtain appropriate CPE

- Policies not set to require relevant CPE for levels of service and industries of engagements performed
- Leadership Responsibilities for Quality Within the Firm
  - Failure to have a written quality control document in accordance with SQCS 8

#### *FASB Accounting Standards Codification*

- No disclosure of tax years that remain subject to examination by major tax jurisdictions and disclosure of uncertain tax positions
- No disclosure of the date through which subsequent events were evaluated
- Incorrect classifications, net amounts instead of gross and non-cash transactions on the cash flow statement
- Long-term debt was not segregated into current and long-term portions.
- Missing or insufficient sinking funds disclosure, term, interest rate, maturity, covenants and collateral, if any, for a note payable.
- Missing or insufficient fair value disclosures related to fair value hierarchy of investments, description of the levels, descriptions of the methods used and tabular presentation of amounts. Also included insufficient procedures and documentation regarding the procedures to obtain assurance of the fair value measurements.

#### **Practice Areas**

Issues noted above related to professional standards and FASB Accounting Standards Codification were prevalent in each of these practice areas. Matters included in this section are those trends identified for each specific practice area.

#### *Governmental, A-133, and HUD* Reporting

- Failure to include all of the required elements of professional standards in the Independent Auditor's Report including the following omissions: reference to the engagement being performed in accordance with *Government Auditing Standards*, identification of the governmental entity's major funds and opinion units presented, and addressing supplemental information and required supplemental information, reference to prior year financial statements when comparative years are presented, reference to the Yellow Book Internal Control report.
- Failure to include all of the required elements of professional standards in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters including: omitted "Independent" from report title, omitted reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs, indication that there were no significant deficiencies identified, omitted a clause stating that the entity's responses were not audited and that the auditor expresses no opinion on those responses, and omitted purpose alert.

#### Disclosure and Presentation

- Failure to present the financial statements in accordance with professional standards including Equity and Net Asset presentation and reconciliations, presentation of funds, missing significant policy footnotes, and financial statement titles.

#### Documentation and Performance

- Failure to properly document independence considerations required by Yellow Book including the evaluation of management's skills, knowledge, and experience to

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effectively oversee nonaudit services performed by the auditor, evaluation of threats, and safeguards applied to reduce threats to an acceptable level.

- Failure to meet the Yellow Book CPE requirements including 80 hours of A&A and 24 hours of Yellow Book specific courses.
- Failure to document audit planning and procedures including consideration of IT systems, testing of significant accounts and transactions, fraud procedures, internal controls, and linkage of risk assessment to procedures performed.
- Failure to document required communications with those charged with governance.
- Failure to ensure that the written representations from the audited entity contained all applicable elements including the following: representations tailored to the entity and governmental audit regarding federal awards, and representations covering both years when comparative financial statements are presented.
- SINGLE AUDIT: Failure to identify and test sufficient and appropriate major programs. These errors were the result of using preliminary expenditures when the final expenditures resulted in a high risk Type A program, failure to cluster, and failure to group programs with the same CFDA number.
- SINGLE AUDIT: Failure to document an understanding of internal control over compliance of federal awards sufficient to plan the audit to support low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each compliance requirement and major program.
- SINGLE AUDIT: Failure to document the adequacy of the planned sample size for test of controls over compliance to achieve a low level of control risk.
- SINGLE AUDIT: Failure to document the testing of controls and compliance for the relevant assertions related to each compliance requirement with a direct and material effect for the major program.

#### *ERISA*

- Missing or insufficient documentation of allocation of investment income to participant accounts.
- Insufficient participant testing related to demographic data and payroll.
- Insufficient procedures and documentation for reliance on SOC 1 reports.
- Supplemental schedules required by ERISA and DOL regulations are not presented in the prescribed format.

#### *Broker-Dealers*

- Failure to comply with SEC Independence Rules, including not preparing financial statements for clients
- Audit reports inappropriately referenced use of the PCAOB standards to perform the audits (when SAS were followed)
- Audit reports on internal controls were not appropriate, including using the non-carrying format for a carrying firm, outdated definitions of internal control and restrictions of the report to management and regulations
- Failure to use a broker-dealer specific financial statement checklist thus missing required disclosures

#### *Service Organization Control (SOC) Reports*

##### *SOC 1*

- The service auditor lacked the experience and training required under SSAE 16 to properly complete a Service Organization Control Report.

- The client acceptance, the description of controls and the audit documentation omitted reference to the need for complimentary user controls if any exist, the risks that threaten the achievement of the control objectives and the linkage between the controls included in the control description, and the proper identification of subservice organizations and related services and ultimate use of the carve out method.
- The information included in the report did not have sufficient support in the workpapers, such as
  - No documentation to assess the nature, timing, and extent of the procedures (specifically sampling methodology)
  - Control testing did not address the elements of the control, all IT general controls and change management controls
  - No documentation of procedures to support the Other Information included in the report
- Incorrect references included or incorrect language used in the report including user controls, carve outs, and other information.

#### SOC 2

- The report issued included non-standard wording regarding complementary user entity controls

#### *Banking, including FDICIA*

- Failure to include all elements required by professional standards in the accountant's report on internal controls
- Failure to understand and comply with the independence rules applicable to these engagements, i.e. SEC independence rules do not allow the auditor to also prepare the client's financial statements
- Failure to properly disclose:
  - valuation allowances and related segmentation information of the loan portfolio
  - consolidated capital ratios and requirements
  - that the entity was subject to expanded regulatory supervision and why
  - OREO's and goodwill in the fair value footnote as a non-recurring measurement item
- Insufficient audit testing of real estate lending including inadequate quantitative information such as aging, past due status, or historical charge-offs. Similarly, insufficient audit testing of foreclosed property data, including inadequate testing of current year additions, analysis of fair value/carrying value.
- Insufficient audit testing of certain subjective, qualitative components of the allowance for loan loss, and retrospective review of the allowance for loan loss for bias.
- Management representation letter did not contain representations specific to financial institutions.

#### *Not for profit*

- Open tax years were not disclosed because the firm believed the disclosure was not required for tax exempt entities
- Net assets not properly classified as unrestricted, temporarily restricted and permanently restricted
- Inadequate disclosure of the nature, amounts and types of net asset restrictions
- Policies regarding donated goods and services not disclosed
- Auditors' report did not refer to the Statement of Functional Expenses
- Improper expense classifications on the Statement of Functional Expenses



**Standards Task Force Future Agenda Items**

**Why is this on the Agenda?**

The Standards Task Force will provide this information to the Board at each open session meeting as a way to garner feedback and input on the nature and timing of agenda items that will be considered in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to feedback received.

**Feedback Received**

N/A

**PRISM Impact**

N/A

**AE Impact**

N/A

**Communications Plan**

N/A

**Manual Production Cycle (estimated)**

N/A

**Effective Date**

N/A

**Board Consideration**

Review the list of Standards Task Force future agenda items below and provide feedback.

- Focus for 2014 will primarily be on the proposals from the Enhancing Quality Initiative Task Forces.
- Topics Expected to Be Addressed in 2014:
  - Consideration of whether or not it is appropriate for Joint Trial Board members to also be members of a Peer Review Committee or Report Acceptance Body.
  - Consideration of guidance related to firm re-enrollment in the peer review program after being dropped or terminated.
  - Determine peer reviewer's responsibilities with respect to verification of firm and individual licenses.
  - Consideration of tone at the top guidance
- Other Future Topics
  - Expansion of Interpretation 5c-1 (which discusses the impact of acquisitions and divestitures) to include further discussion of acquisitions and effect on the peer review scope.
  - Address feedback that Engagement Review representation letter and Engagement Summary Form should be combined.
  - Update definitions of "personnel" and "professionals" used in various forms, practice aids, and guidance.
  - Revise all relevant peer review guidance for revisions to Consolidated OMB (previously A-133). This includes language changes to all forms and guidance,

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and significant changes to single audit checklists (to be done with assistance from GAQC staff). Final OMB guidance not yet approved and effective date is not known.

- Modify, expand and finalize guidance in Interpretations 6-7 and 6-8 for engagements performed under international standards, and develop new guidance on addressing the design of the system of quality control for engagements performed under international standards.
- Continue to enhance QCM related guidance
- Guidance for enlisting committee chairs to assist with AE monitoring

**Education and Communication Task Force Future Agenda Items**

**Why is this on the Agenda?**

The Education and Communication Task Force will provide this information to the Board at each open session meeting as a way to garner feedback and input on the nature and timing of agenda items that will be considered in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to feedback received.

**Feedback Received**

N/A

**PRISM Impact**

N/A

**AE Impact**

N/A

**Communications Plan**

N/A

**Manual Production Cycle (estimated)**

N/A

**Effective Date**

N/A

**Board Consideration**

Review the list of Education and Communication Task Force future agenda items below and provide feedback.

- Conference
  - Assess feedback received from the 2014 AICPA Peer Review Program conference and begin planning for the 2015 conference.
- Training Materials and Programs
  - Monitor the results and demand of the Peer Review Mentoring Initiative
  - Determine the need to develop additional training materials and learning opportunities specifically for individual groups (administrators, technical reviewers, committee members, and reviewers).
  - Discuss and approve the changes in training requirements for both new and existing peer reviewers.
- Training Courses
  - Develop web events which would meet the requirements for continued peer review education for reviewers (minimum of two 2-hour webinars per calendar year)
  - Approve instructor applicants for peer review courses occurring in 2015.
- Peer Reviewer Pool
  - Monitor results of upcoming survey of high-volume reviewers

**Oversight Task Force Future Agenda Items**

**Why is this on the Agenda?**

The Oversight Task Force will provide this information to the Board at each open session meeting as a way to garner feedback and input on the nature and timing of agenda items that the Oversight Task Force will consider in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to new information and circumstances.

**Feedback Received**

N/A

**PRISM Impact**

N/A

**AE Impact**

N/A

**Communications Plan**

N/A

**Manual Production Cycle (estimated)**

N/A

**Effective Date**

N/A

**Board Consideration**

Review the list of items below and provide feedback.

- Conduct Oversight Visits to each Administering Entity at least every other year (approximately 23 visits are planned for 2014).
- Implement the pilot program for the RAB observations and the new engagement-level oversights
- Consider the timing of Oversight Visits to each Administering Entity.
- Review and approve comments on desk reviews of system and engagement reviews selected for oversight.
- Review and update the Oversight Handbook as necessary.
- Communicate changes to pertinent groups regarding changes adopted by the Peer Review Board or other task forces.
- Review reviewer performance issues and requests for national suspension.
- Maintain National RAB listing, including approval of SOC specialists.
- Issue Annual Report on Oversight.



## Peer Review Program