

Peer Review Board Open Session Meeting

August 5, 2015

New Orleans, LA

**AICPA Peer Review Board
Open Session Agenda
August 5, 2015
New Orleans, Louisiana**

Date/Time: Wednesday August 5, 2015 10:00AM – 12:00PM (Central Time)

- 1.1 Welcome Attendees and Roll Call of Board** - Ms. Ford/Ms. McClintock
- 1.2 Approval of Changes to Chapter 4 of the RAB Handbook related to Implementation Plans and Corrective Actions on System Reviews* -Mr. Parry
- 1.3 Approve Clarified Peer Review Report Exposure Draft* - Mr. Parry
- 1.4 Update on Task Forces of Enhancing Quality Initiative* - Ms. Ford
- 1.5 Update on Enhanced Oversight Initiative* - Mr. Hill
- 1.6 Discussion on New Reviewer Training Guidance* - Ms. Lee-Andrews
- 1.7 Discussion on Potential RAB and Technical Reviewer Training Requirements* - Ms. Lee-Andrews
- 1.8 Report from State CPA Society Executive Directors** - Mr. Jones
- 1.9 Update on Electronic Peer Review Program Manual** - Ms. Lieberum
- 1.10 Operations Director's Report** - Ms. Thoresen
- 1.11 For Informational Purposes*:
 - A. Update on Oversight Task Force*
 - B. Update on Standards Task Force*
 - C. Update on Education and Communications Task Force*
 - D. Update on National Peer Review Committee*
 - E. Report on Firms Whose Enrollment was Dropped or Terminated*
 - F. Update on the MFC Project*
- 1.12 Future Open Session Meetings** - Ms. Thoresen
 - A. September 17, 2015 Closed Session – Conference Call
 - B. September 18, 2015 Open Session – Conference Call
 - C. January 11-13, 2016 Planning TF/Task Force Meetings/Closed/Open – Sarasota, FL
 - D. May 2-3, 2016 Task Force Meetings/Closed/Open Sessions – Durham, NC
 - E. August 11, 2016 Closed/Open Sessions – San Diego, CA
 - F. September 26, 2016 Closed Session – Conference Call
 - G. September 27, 2016 Open Session – Conference Call

*- Document Provided

** - Verbal Discussion

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

Proposed Revisions

RAB Handbook, Chapter 4

**Guidance for Determining When and What Type of Corrective Action(s) or
Implementation Plans to Require on System Reviews**

Why is this on the Agenda?

In an effort to provide consistent wording related to a reviewed firm's election of an accelerated review following a *fail* report, staff modified the language in Chapter 4 of the RAB Handbook. The modification is consistent with the language when a firm receives a *pass with deficiency* report and requests an accelerated review. See Agenda Item 1.2A for proposed revisions.

Feedback Received

None; please note this is a conforming change only and is not considered to be a significant change in guidance.

PRISM Impact

This update is not expected to have an impact on PRISM.

AE Impact

This update is not expected to have an impact on AEs.

Communications Plan

Upon approval, staff will issue the Peer Review Alert included at Agenda Item 1.2B.

Manual Production Cycle (estimated)

Contingent upon approval, the guidance will be updated in the next manual.

Effective Date

Since this is a conforming change, the guidance will be effective immediately.

Board Consideration

1. Review and approve the proposed revisions as presented in Agenda Item 1.2A.
2. Review and approve the related Peer Review Alert as presented in Agenda Item 1.2B.

Proposed Revisions

RAB Handbook, Chapter 4

Guidance for Determining When and What Type of Corrective Action(s) or Implementation Plans to Require on System Reviews

- A. In an effort to promote consistency, the following situations should be considered before deciding upon certain corrective actions and implementation plans on FFCs on System Reviews.
1. System Review Report Rating—*Pass*
 - a. A RAB should not require *any* remedial, corrective action(s) as a condition of acceptance of a System Review with a report with a rating of pass. However, there may be instances where an implementation plan is required as a result of FFCs. See item (A.4) in the following text, for treatment of FFCs, if any.
 2. System Review Report Rating—*Pass With Deficiencies*
 - a. When a firm receives a report with a rating of *pass with deficiencies*, the RAB ordinarily should require some type of remedial, corrective action as a condition of acceptance regardless of whether the firm appears to have an understanding of professional standards. In addition, there may be instances where an implementations plan is required as a result of FFCs. See item (A.4) in the following text for treatment of FFCs, if any.
 - b. The type of action required would depend on the nature of the deficiencies. See suggested actions in exhibit 4-2.
 - (1) If, for example, the deficiencies are related to engagement performance (including documentation matters), the RAB may decide to require that the firm allow the team captain or someone acceptable to the RAB to revisit the firm within a reasonable period of time. The purpose of the revisit is to determine that the corrective actions discussed by the firm in its response are being effectively implemented. The individual performing the revisit should issue a report that describes the results of revisit procedures and his or her conclusions on the firm's progress.
 - (2) If the deficiencies are related to noncompliance of another element of the quality control system (human resources, for example), as evidenced by engagement deficiencies related to a specific industry or area of accounting or auditing subjects, the RAB should ordinarily require that identified members of the firm take specified amounts and types of continuing professional education (CPE) and submit evidence of completion. If the firm's response indicates that someone has already taken the needed CPE, or that it has hired someone with the needed expertise, the RAB may conclude that the problem is resolved by asking the firm to allow the team captain or someone acceptable to the RAB to review the report, financial statements, and selected working papers on an engagement performed subsequent to the peer review.
 - (3) If the deficiencies are related to a specific industry (governmental or employee benefit plans), the RAB may consider that requiring the firm to join an audit

quality center and submit evidence of joining such a center may be a viable corrective action in addition to other corrective actions. For this type of corrective action, the report deficiency must be supported by industry specific engagements that are not performed or reported on in conformity with applicable professional standards in all material respects. The requirement to join the AICPA Government Audit Quality Center or Employee Benefit Plan Audit Quality Center may only be prescribed as a corrective action when the firm is eligible to enroll in the centers and when prescribed in conjunction with other corrective actions.

- (4) If the deficiencies pertain to other quality control matters, the corrective action should be tailored to those matters.
- (5) The RAB may choose to permit, but should not require except in rare circumstances, the firm to undergo an accelerated peer review in lieu of other remedial or corrective actions considered necessary in the circumstances. This would only be allowed when the firm elects, in writing, to have an accelerated review. An accelerated review would only be appropriate when the corrective action is post-issuance review or a team captain revisit.

The accelerated review should generally commence after the firm has had sufficient opportunity to implement the corrective actions.

- c. The RAB should establish a due date when the corrective action should be completed. The corrective action should be completed as soon as reasonably possible; however, all known and relevant facts and circumstances should be considered (such as the anticipated completion date of subsequent engagements).

3. System Review Report Rating—*Fail*

- a. When a firm receives a report with a rating of *fail*, the RAB should consider the nature of the significant deficiencies and evaluate what actions should be taken. The RAB should require some type of remedial, corrective action as a condition of acceptance regardless of whether the firm appears to have an understanding of professional standards. ~~See suggested actions in exhibit 4-2.~~ In addition, there may be instances where an implementation plan is required as a result of FFCs. See item (A.4) in the following text, which follows, for treatment of FFCs, if any.

- b. Examples of appropriate actions are those described previously described within item (A.2.b.). Additionally, plus, the RAB may require:

(1) ~~(1) that~~ That members of the firm take specified amounts and types of continuing professional education and submit evidence of attendance at those courses, and/or

(2) ~~require~~ Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance reviews of certain types or portions of engagements and to report quarterly to the RAB on the firm's progress or allow the team captain or someone acceptable to the RAB to revisit the firm to determine that the corrective actions discussed by the firm in its response are being effectively implemented.

(3) The RAB may choose to permit, but should not require except in rare circumstances, the firm to undergo an accelerated peer review in lieu of other remedial or corrective actions considered necessary in the circumstances. This would only be allowed when the firm elects, in writing, to have an accelerated

review. An accelerated review would only be appropriate when the corrective action is post-issuance review or a team captain revisit.

The accelerated review should generally commence after the firm has had sufficient opportunity to implement the corrective actions.

~~b.c.~~ The RAB should establish a due date when the corrective action should be completed. The corrective action should be completed as soon as reasonably possible; however, all known and relevant facts and circumstances should be considered (such as the anticipated completion date of subsequent engagements).

Peer Review Alert

RAB Handbook, Chapter 4

**Guidance for Determining When and What Type of Corrective Action(s) or
Implementation Plans to Require on System Reviews**

In an effort to provide consistent wording related to a reviewed firm's election of an accelerated review following a *fail* report, staff modified the language in Chapter 4 of the RAB Handbook. The change is consistent with guidance for firms that have received a pass with deficiency report and elect to have an accelerated review. Accelerated reviews should only be permitted when a firm's corrective action is post-issuance review and/or team captain revisit.

The Board has adopted the proposed conforming change as presented at the August 5, 2015 Board meeting. The revision is effective immediately.

Clarified Peer Review Report

Why is this on the Agenda?

In May 2014 the AICPA launched its Enhancing Audit Quality (EAQ) initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

One of the steps in achieving the EAQ goal is to make peer review results more informative. Input was obtained from peer review stakeholders on the transparency of the peer review report. The board continues to explore ways to make peer review results more informative, and is currently proposing changes based on input received in an effort to clarify the peer review report and make the results of the peer review easier to understand.

Feedback Received

The proposed changes were discussed with various stakeholder groups.

PRISM Impact

N/A

AE Impact

N/A other than making sure the report language is current.

Communications Plan

The exposure draft will be posted to aicpa.org on August 6, 2015 with comments due by October 9, 2015. Reviewer Alerts will be released monthly to remind reviewers of the proposed changes.

Manual Production Cycle (estimated)

If approved, the changes will be published in OPL on January 1, 2016.

Effective Date

If approved, final revisions will be effective for reviews with a report date on or after January 1, 2016.

Board Consideration

Discuss and approve the exposure draft at Agenda Item 1.3A.

EXPOSURE DRAFT

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

Clarified Peer Review Report

August 5, 2015

Comments are requested by October 9, 2015

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

**Comments should be received by October 9, 2015 and addressed to
Rachelle Drummond, 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**

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American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

August 5, 2015

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* ("PR Standards").

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

- Must be received by October 9, 2015
- Should be sent to Rachelle Drummond or PR_expdraft@aicpa.org
- Should refer to the specific paragraphs and include supporting reasons for each comment or suggestion
- Should be limited to those items presented in the exposure draft
- Will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after October 9, 2015 for a period of one year.

The exposure draft includes the following:

- An explanatory memorandum of the proposed revisions to the current *PR Standards*
- Explanations, background and other pertinent information
- Marked excerpts from the current *PR Standards* to allow the reader to see all changes:
 - Items that are being deleted from the *PR Standards* are struck through,
 - New items are underlined, and
 - Items relocated are double struck through in the original location and double underlined in the new location).

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

Sincerely,

Anita M. Ford
Chair
AICPA Peer Review Board

**AICPA Peer Review Board
2014 – 2015**

Anita M. Ford, Chair*
James Clausell*
Michael Fawley
Lawrence Gray
Richard Hill
Richard Jones
Karen Kerber*
Michael LeBlanc
Toni Lee-Andrews
G. Alan Long*

Michael McNichols
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Thomas W. Whittle

**Member—Peer Review Board Standards Task Force*

**Non-Peer Review Board Standards Task Force Members
2014 – 2015**

Jerry Cross

Heather Reimann

AICPA Staff

Susan S. Coffey
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Public Practice and Global Alliances

James Brackens, Jr.
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Ethics and Practice Quality

Gary Freundlich
Technical Director
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Frances McClintock
Associate Director
AICPA Peer Review Program

Susan Lieberum
Senior Technical Manager
AICPA Peer Review Program

Rachelle Drummond
Technical Manager
AICPA Peer Review Program

Explanatory Memorandum

Introduction

This memorandum provides background on the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews (PR Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes clarify the peer review report model by including headings similar to the clarified audit report, providing an explanation of how nonconforming engagements are evaluated to determine a peer review rating, and identifying must select industries and practice areas in deficiency and significant deficiency descriptions. This memorandum solicits input on the proposal from all interested parties.

Background

In May 2014 the AICPA launched its Enhancing Audit Quality (EAQ) initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

One of the steps in achieving the EAQ goal is to make peer review results more informative. Input was obtained from peer review stakeholders on the transparency of the peer review report. The board continues to explore ways to make peer review results more informative, and is currently proposing the following changes based on input received in an effort to clarify the peer review report and make the results of the peer review easier to understand.

The board is proposing to:

- Restructure the placement of information within the System Review, Engagement Review, and Quality Control Materials Provider reports under appropriate headings, similar to the clarified audit report.
- Clarify the purpose of the peer review with descriptive report titles.
- In the URL referenced in the System Review report (Appendix A of the Standards), explain the evaluation of nonconforming engagements by the peer reviewer to determine a peer review rating.
- Reference the preceding explanation in the System Review report to encourage report users to read the summarized information located at the URL to enhance their understanding of the peer review results.
- Clarify the required selections paragraph of the report by appropriately indicating when singular selections were made. For example, an employee benefit plan audit versus audits of employee benefit plans.
- In a System Review report, require that deficiency and significant deficiency descriptions identify must select industries and practice areas, when applicable. Note this requirement is in addition to the current guidance that requires that descriptions identify the industry when the deficiency or significant deficiency is industry specific.

Explanation of Proposed Changes

Revisions to *Standards*

The proposed changes include the following:

Paragraphs .96, .122, and .194

- Revisions to the report requirements for System Reviews, Engagement Reviews, and Quality Control Materials Provider Reviews including:
 - Adding headings within the report.
 - Adding a statement that the Standards summary includes an explanation of how nonconforming engagements are considered in the evaluation of a peer review rating (System Reviews only).
 - Clarifying the required selections paragraph of the report by appropriately indicating when singular selections were made.
 - Clarifying the report by stating that reviews by regulatory entities, as communicated by the firm, were considered (System Reviews only).
 - Adding must select industry or practice area identification to deficiency and significant deficiency descriptions, when applicable.
 - Moving bullets to follow the order of the information presented in report illustrations.
 - Combining bullets related to requirements applicable to both pass with deficiencies and fail reports.

Paragraph .207

- Revisions to Appendix A (the content for the URL referenced in the report) including:
 - Clarifying that the industries described are known as must select engagements.
 - Adding information to explain how nonconforming engagements are considered in the evaluation of the peer review rating in a System Review.
 - Adding information to explain when deficiency and significant deficiency descriptions will identify applicable industries or practice areas.

Paragraphs .209, .210, .211, .213, .215, .217, .219, .220, .222, .224, .225, and .226

- Revisions to the report illustrations for System Reviews, Engagement Reviews, and Quality Control Materials Provider Reviews including:
 - Adding headings within the report and moving content to appropriate sections.
 - Adding a statement that the *PR Standards* summary includes an explanation of how nonconforming engagements are considered in the evaluation of a peer review rating (System Reviews only).
 - Clarifying the required selections paragraph of the report should appropriately indicate when singular selections were made.
 - Adding must select industry or practice area identification to deficiency and significant deficiency descriptions, when applicable.
 - Adding an example of a deficiency that is not industry specific and does not apply to a must select industry or practice area to the pass with deficiencies System Review report.
 - Clarifying that the Engagement Review report and body should be tailored appropriately when a single engagement is reviewed.
 - Clarifying the Engagement Review report by stating which engagements were selected based on period end date or report date, as applicable.

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

Comment Period

The comment period for this exposure draft ends on October 9, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after October 9, 2015, for a period of one year.

Guide for Respondents

The board welcomes feedback from all interested parties on this proposal. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to Rachelle Drummond, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 or PR_expdraft@aicpa.org, and should be received by October 9, 2015.

Effective Date

If approved by the Board, final revisions to the *PR Standards* will be effective for reviews with a report date on or after January 1, 2016.

Proposed Revisions

To aid understanding, standards are presented in this section if they contain a proposed revision.

Peer Review Standards

Preparing the Report in a System Review

- .96 The written report in a System Review should:
- a. State at the top of the report the title "~~System Review Report~~Report on the Firm's System of Quality Control."
 - b. Include headings for each of the following sections:
 - Firm's Responsibility.
 - Peer Reviewer's Responsibility.
 - Required Selections and Considerations, if applicable.
 - Deficiency(ies) or Significant Deficiency(ies) Identified and Reviewer Recommendations, if applicable.
 - Scope Limitation, if applicable.
 - Opinion.
 - ~~b.c.~~ State that the system of quality control for the accounting and auditing practice of the firm was reviewed and include the year-end covered by the peer review.
 - ~~e.d.~~ State that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.
 - ~~d.e.~~ State that the nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards.
 - f. Include a URL reference to the AICPA website where the standards are located~~summarized and a statement that the summary includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.~~
 - ~~e.g.~~ State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
 - ~~f.h.~~ State that the reviewer's responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on the review.
 - ~~g.i.~~ ~~State that the nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards.~~
 - ~~h.j.~~ ~~Include a URL reference to the AICPA website where the standards are located.~~
 - k. Identify engagement types required to be selected by the board in the interpretations and indicate whether single or multiple engagements (for example, an audit versus audits) were reviewed, when applicable.
 - ~~i.l.~~ State that reviews by regulatory entities, if applicable, were considered in determining the nature and extent of procedures.
 - ~~j.m.~~ In the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review. Tailor the opinion, as appropriate, to address the scope limitation.

~~k.n.~~ Identify the different peer review ratings that the firm could receive.

~~t.o.~~ In a report with a peer review rating of *pass*:

- Express an opinion that the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- State at the end of the opinion paragraph that therefore the firm has received a peer review rating of *pass*.
- ~~In the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review.~~
- Reports with a peer review rating of *pass* do not contain any findings, deficiencies, significant deficiencies, or recommendations.

~~m.p.~~ In a report with a peer review rating of *pass with deficiencies*:¹

- Express an opinion that, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- State at the end of the opinion paragraph that therefore the firm has received a peer review rating of *pass with deficiencies*.
- ~~In the event of a scope limitation, include an additional paragraph before the deficiencies that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review.~~

~~n.g.~~ In a report with a peer review rating of *fail*:

- Express an opinion that as a result of the significant deficiencies previously described, the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended was not suitably designed or complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- State at the end of the opinion paragraph that therefore the firm has received a peer review rating of *fail*.
- ~~In the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the relationship of the excluded engagement(s) or functional area(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review.~~

~~r.~~ In a report with a peer review rating of *pass with deficiencies or fail*:

- ~~Include, for reports with a peer review rating of *pass with deficiencies or fail*, systemically written descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations (each of these should be numbered) (See~~

¹ Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

interpretations).

- Identify, ~~for~~ any deficiencies or significant deficiencies ~~included in the report with a peer review rating of pass with deficiencies or fail, any~~ that were also made in the report issued on the firm's previous peer review (see interpretations). This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.
- Identify the level of service for any deficiencies or significant deficiencies.
- ~~Identify an industry if the a~~ deficiency or significant deficiency ~~included in the report with a peer review rating of pass with deficiencies or fail~~ is industry specific; ~~also identify the industry.~~
- Identify industry and practice areas if a deficiency or significant deficiency applies to a specific type of engagement that must be selected.

Illustrations of Reports in an Engagement Review

.122 The written report in an Engagement Review should:

- a. State at the top of the report the title "~~Engagement Review Report~~Report on the Firm's Conformity With Professional Standards on Engagements Reviewed."
- b. Include headings for each of the following sections:
 - a. Firm's Responsibility.
 - b. Peer Reviewer's Responsibility.
 - c. Deficiency(ies) or Significant Deficiency(ies) Identified and Reviewer Recommendations, if applicable.
 - d. Scope Limitation, if applicable.
 - e. Opinion.
- ~~b.c.~~ State that the review captain reviewed selected accounting engagements of the firm and include the year-end covered by the peer review.
- ~~e.d.~~ State that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.
- ~~d.e.~~ State that the nature, objectives, scope, limitations of, and procedures performed in an Engagement Review are described in the standards.
- ~~e.f.~~ Include a URL to the AICPA website where the standards are located~~summarized.~~
- ~~f.g.~~ State that the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects (even though this is an Engagement Review, the statement reflects the responsibility of the firm).
- ~~g.h.~~ State that the reviewer's responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.
- ~~h.i.~~ State that an Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, the reviewers express no opinion or any form of assurance on that system.
~~State that the nature, objectives, scope, limitations of, and procedures performed in an Engagement Review are described in the standards.~~
~~Include a URL to the AICPA website where the standards are located.~~
- ~~i.j.~~ In the event of a scope limitation, include an additional paragraph before the last paragraph that describes the relationship of the excluded engagement(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion

on the scope and results of the peer review. Tailor the opinion, as appropriate, to address the scope limitation.

~~j.k.~~ Identify the different peer review ratings that the firm could receive.

~~k.l.~~ In a report with a peer review rating of pass, state:

- That nothing came to the review captain's attention that caused the review captain to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
- At the end of the second opinion paragraph, that ~~therefore~~ the firm has received a peer review rating of pass.
- ~~In the event of a scope limitation, include an additional paragraph before the last paragraph that describes the relationship of the excluded engagement(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review.~~
- Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies, or recommendations.

~~l.m.~~ In a report with a peer review rating of *pass with deficiencies*,² state:

- That except for the deficiencies previously described, nothing came to the review captain's attention that caused the review captain to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
- At the end of the last opinion paragraph, that ~~therefore~~ the firm has received a peer review rating of pass with deficiencies.
- ~~In the event of a scope limitation, include an additional paragraph before the deficiencies that describes the relationship of the excluded engagement(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review.~~

~~m.n.~~ In a report with a peer review rating of fail, state:

- That as a result of the deficiencies previously described, the review captain believes that the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.
- At the end of the last opinion paragraph, that therefore the firm has received a peer review rating of fail.
- ~~In the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the relationship of the excluded engagement(s) to the reviewed firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review.~~

o. In a report with a peer review rating of pass with deficiencies or fail:

- Include, ~~for reports with a peer review rating of pass with deficiencies or fail,~~ descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations (each of these should be numbered) (see interpretations).
- Identify, ~~for any deficiencies or significant deficiencies included in the report with a peer review rating of pass with deficiencies or fail, any~~ that were also made in the report in the firm's previous peer review. However, if the specific types of reporting, presentation, disclosure, or documentation deficiencies or significant deficiencies

² Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

are not substantially the same on the current review as on the prior review, the deficiencies or significant deficiencies would not be considered a repeat (see interpretations).

- Identify the level of service for any deficiencies or significant deficiencies. If the deficiency or significant deficiency ~~included in the report with a peer review rating of pass with deficiencies or fail~~ is industry specific, also identify the industry.

Preparing the Report in a QCM Review

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

- a. State at the top of the page the title "~~Quality Control Materials Review Report~~Report on the Provider's System of Quality Control and Resultant Materials."
- b. Include headings for each of the following sections:
 - a. Provider's Responsibility.
 - b. Peer Reviewer's Responsibility.
 - c. User's Responsibility.
 - d. Deficiency(ies) or Significant Deficiency(ies) Identified and Reviewer Recommendations, if applicable.
 - e. Opinion.
- c. State that the system of quality control for the development and maintenance of the materials and the resultant materials in effect at the year-end covered by the QCM review were reviewed.
- ~~b.d.~~ Identify the items covered by the opinion or refer to an attached listing.
- ~~e.e.~~ State that the review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants.
- ~~d.f.~~ State that the nature, objectives, scope, limitations of, and procedures performed in a Quality Control Materials review are described in the standards.
- ~~e.g.~~ Include a URL reference to the AICPA website where the standards are located.~~summarized.~~
- ~~f.h.~~ State that the provider is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in performing and reporting in conformity with the components which are integral to the professional standards that the materials purport to encompass.
- ~~g.i.~~ State that the reviewer's responsibility is to express an opinion on the design of the system of quality control, the provider's compliance with that system, and the reliability of the resultant materials based on the review.
~~State that the nature, objectives, scope, limitations of, and procedures performed in a Quality Control Materials review are described in the standards.~~
~~Include a URL reference to the AICPA website where the standards are located.~~
- ~~h.i.~~ State that the users of the materials are responsible for implementing, tailoring, and augmenting the materials as appropriate.
- ~~i.k.~~ State that there may be important elements of a quality control system in accordance with Statements on Quality Control Standards that are not part of the materials that have been subject to this QCM review.
- ~~j.l.~~ Identify the different peer review ratings that the provider could receive.
- ~~k.m.~~ In a report with a peer review rating of pass:
 - Express an opinion that the system of quality control for the development and

maintenance of the quality control materials was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids.

- Express an opinion that the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at year-end.
- State at the end of the opinion paragraph that therefore the report reflects a peer review rating of pass.
- Reports with a peer review rating of pass do not contain any findings, deficiencies, significant deficiencies, or recommendations.

~~t.n.~~ t.n. In a report with a review rating of pass with deficiencies:³

- Express an opinion that, except for the deficiencies described previously, the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the year ended to provide reasonable assurance that the materials are reliable aids. ~~or~~
- Express an opinion that, except for the deficiencies described previously, the quality control materials were reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at year-end.
- State at the end of the opinion paragraph that therefore the report reflects a review rating of pass with deficiencies.

~~m.o.~~ m.o. In a report with a peer review rating of fail:

- Express an opinion that as a result of the significant deficiencies described previously, the system of quality control for the development and maintenance of the quality control materials was not suitably designed and being complied with during the year ended and, therefore, cannot provide reasonable assurance that the materials are reliable aids.
- Express an opinion that also, as a result of the significant deficiencies described previously, the quality control materials are not reliable aids and do not assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at year-end.
- State at the end of the opinion paragraph that therefore the provider has received a peer review rating of fail.

p. In a report with a peer review rating of pass with deficiencies or fail:

- Include ~~, for reports with a review rating of pass with deficiencies or fail,~~ written descriptions of the deficiencies or significant deficiencies and the reviewing firm's recommendations (each of these should be numbered).
- Identify ~~, for~~ any deficiencies or significant deficiencies ~~included in the report with a review rating of pass with deficiencies or fail any~~ that were also made in the report issued on the provider's previous QCM review. This should be determined based on the underlying systemic cause of the deficiencies or significant deficiencies.

³ Reference to plural could also apply to a singular item within the standards. For instance, there could be deficiencies or a deficiency. The wording in the peer review report should be tailored as necessary.

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Appendix A**Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials Reviews (as Referred to in a Peer Review Report)**

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

1. Firms (and individuals) enrolled in the AICPA Peer Review Program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-Security and Exchange Commission (SEC) issuers covering a one-year period. The peer review is conducted by an independent evaluator, known as a peer reviewer. The AICPA oversees the program, and the review is administered by an entity approved by the AICPA to perform that role.
2. The peer review helps to monitor a CPA firm's accounting and auditing practice (*practice monitoring*). The goal of the practice monitoring, and the program itself, is to promote quality in the accounting and auditing services provided by the AICPA members and their CPA firms. This goal serves the public interest and enhances the significance of AICPA membership.
3. There are two types of peer reviews: System Reviews and Engagement Reviews. System Reviews focus on a firm's system of quality control and Engagement Reviews focus on work performed on particular selected engagements. As noted in paragraphs 4 and 157, a further description of System and Engagement Reviews, and Quality Control Materials (QCM) Reviews, as well as a summary of the nature, objectives, scope, limitations of, and procedures performed on them, is provided in the following sections.

System Reviews

4. A System Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a CPA firm's system of quality control to perform accounting and auditing work. The system represents the policies and procedures that the CPA firm has designed, and is expected to follow, when performing its work. The peer reviewer's objective is to determine whether the system is designed to ensure conformity with professional standards and whether the firm is complying with its system appropriately.
5. Professional standards are literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to comply with when designing its system and when performing its work. Professional standards include but are not limited to the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA) that pertain to leadership responsibilities for quality within the firm (the "tone at the top"); relevant ethical requirements (such as independence, integrity and objectivity); acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring.
6. To plan a System Review, a peer reviewer obtains an understanding of (1) the firm's accounting and auditing practice, such as the industries of its clients, and (2) the design of the firm's system, including its policies and procedures and how the firm checks itself that it is complying with them. The reviewer assesses the risk levels implicit within different

aspects of the firm's practice and its system. The reviewer obtains this understanding through inquiry of firm personnel and review of documentation on the system, such as firm manuals.

7. Based on the types of engagements firms perform, they may also have their practices reviewed or inspected on a periodic basis by regulatory or governmental entities, including but not limited to the Department of Health and Human Service, the Department of Labor, and the Public Company Accounting Oversight Board. The team captain obtains an understanding of those reviews or inspections, and he or she considers their impact on the nature and extent of the peer review procedures performed.
 8. Based on the peer reviewer's planning procedures, the reviewer looks at a sample of the CPA firm's work, individually called engagements. The reviewer selects engagements for the period covered by the review from a cross section of the firm's practice with emphasis on higher risk engagements. The engagements selected must include those performed under *Government Auditing Standards*, audits of employee benefit plans, audits of depository institutions (with assets of \$500 million or greater), audits of carrying broker-dealers, and examinations of service organizations (Service Organization Control [SOC] 1 and 2 engagements) when applicable (these are known as must select engagements). The scope of a peer review only covers accounting and auditing engagements performed under U.S. professional standards; it does not include the firm's SEC issuer practice, nor does it include tax or consulting services. The reviewer will also look at administrative elements of the firm's practice to test the elements listed previously from the Statements on Quality Control Standards.
 9. The reviewer examines engagement working paper files and reports, interviews selected firm personnel, reviews representations from the firm, and examines selected administrative and personnel files. The objectives of obtaining an understanding of the system and then testing the system forms the basis for the reviewer's conclusions in the peer review report.
 10. When a CPA firm receives a report from the peer reviewer with a peer review rating of *pass*, the report means that the system is appropriately designed and being complied with by the CPA firm in all material respects. If a CPA firm receives a report with a peer review rating of *pass with deficiencies*, this means the system is designed and being complied with appropriately by the CPA firm in all material respects, except in certain situations that are explained in detail in the peer review report. When a firm receives a report with a peer review rating of *fail*, the peer reviewer has determined that the firm's system is not suitably designed or being complied with, and the reasons why are explained in detail in the report.
- 40-11. If a deficiency or significant deficiency included in the peer review report is industry specific or relates to a must select engagement, the report will identify the industry or practice area.

12. As the purpose of a System Review is to report on the firm's system of quality control, the peer review report may not identify engagements that were not performed and reported on in conformity with applicable professional standards in all material respects (nonconforming). For all peer reviews, if nonconforming engagements are identified, the reviewed firm has the responsibility to evaluate the matters identified in accordance with professional standards. For System Reviews, the firm's response is evaluated to determine if it is appropriate, whether lack of response is indicative of other weaknesses in the firm's system of quality control, or whether monitoring procedures are necessary to verify if the engagement was remediated.

~~11-13.~~ There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A peer review is based on selective tests. It is directed at assessing whether the design of and compliance with the firm's system provides the firm with reasonable, not absolute, assurance of conforming to applicable professional standards. Consequently, it would not necessarily detect all weaknesses in the system or all instances of noncompliance with it. It does not provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated. Projection of any evaluation of a system to future periods is subject to the risk that the system may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Engagement Reviews

~~12-14.~~ An Engagement Review is a type of peer review that is a study and appraisal by an independent evaluator(s), known as a peer reviewer, of a sample of a CPA firm's actual accounting work, including accounting reports issued and documentation prepared by the CPA firm, as well as other procedures that the firm performed.

~~13-15.~~ By definition, CPA firms undergoing Engagement Reviews do not perform audits or other similar engagements but do perform other accounting work including reviews and compilations, which are a lower level of service than audits. The peer reviewer's objective is to evaluate whether the CPA firm's reports are issued and procedures performed appropriately in accordance with applicable professional standards. Therefore, the objective of an Engagement Review is different from the objectives of a System Review, which is more system oriented and involves determining whether the system is designed in conformity with applicable professional standards and whether the firm is complying with its system appropriately.

~~14-16.~~ Professional standards represent literature, issued by various organizations, that contain the framework and rules that a CPA firm is expected to follow when performing accounting work.

~~15-17.~~ The reviewer looks at a sample of the CPA firm's work, individually called engagements. The scope of an Engagement Review only covers accounting engagements; it does not include tax or consulting services. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations from the firm and, except for certain compilation engagements, the documentation required by applicable professional standards.

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

16-19. If a deficiency or significant deficiency is industry specific, the report will identify the industry.

17-20. An Engagement Review does not provide the reviewer with a basis for expressing any assurance as to the firm's system of quality control for its accounting practice, and no opinion or any form of assurance is expressed on that system.

Quality Control Materials Reviews

18-21. An organization (hereinafter referred to as provider) may sell or otherwise distribute quality control materials (QCM or materials) that it has developed to CPA firms (hereinafter referred to as user firms). QCM may be all or part of a user firm's documentation of its system of quality control, and it may include manuals, guides, programs, checklists, practice aids (forms and questionnaires) and similar materials intended for use in conjunction with a user firm's accounting and auditing practice. User firms rely on QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials (as described in the preceding paragraphs).

19-22. A QCM review is a study and appraisal by an independent evaluator (known as a QCM reviewer) of a provider's materials, as well as the provider's system of quality control to develop and maintain the materials (hereinafter referred to as provider's system). The QCM reviewer's objective is to determine whether the provider's system is designed and complied with and whether the materials produced by the provider are appropriate so that user firms can rely on the materials. The scope of a QCM review only covers materials related to accounting and auditing engagements under U.S. professional standards. The scope does not include SEC or PCAOB guidance, nor does it cover materials for tax or consulting services.

20-23. To plan a QCM review, a QCM reviewer obtains an understanding of (1) the provider's QCM, including the industries and professional standards that they cover, and (2) the design of the provider's system, including the provider's policies and procedures and how it ensures that they are being complied with. The QCM reviewer assesses the risk levels implicit within different aspects of the provider's system and materials. The QCM reviewer obtains this understanding through inquiry of provider personnel, review of documentation on the provider's system, and review of the materials.

21-24. Based on the planning procedures, the QCM reviewer looks at the provider's QCM, including the instructions, guidance, and methodology therein. The scope of a QCM review encompasses those materials which the provider elects to include in the QCM review

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

22-25. When a provider receives a QCM review report from an approved QCM reviewer with a review rating of pass, this means the provider's system is designed and being complied with and the materials produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials. If a provider receives a QCM review report with a review rating of pass with deficiencies, this means the provider's system is designed and being complied with and the materials produced by the provider are appropriate so that user firms can rely on the QCM to assist them in performing and reporting in conformity with the professional standards covered by the materials, except in certain situations that are explained in detail in the review report. When a provider receives a report with a review rating of fail, the QCM reviewer has determined that the provider's system is not suitably designed or being complied and the materials produced by the provider are not appropriate, and the reasons why are explained in detail in the report.

23-26. There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected. A QCM review is based on the review of the provider's system and its materials. It is directed at assessing whether the provider's system is designed and complied with and whether the QCM produced by the provider are appropriate so that user firms have reasonable, not absolute, assurance that they can rely on the materials to assist them in performing and reporting in conformity with the professional standards covered by the materials. Consequently, a QCM review would not necessarily detect all weaknesses in the provider's system, all instances of noncompliance with it, or all aspects of the materials that should not be relied upon. Projection of any evaluation of a system or the materials to future periods is subject to the risk that the system or materials may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

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Appendix C**Illustration of a Report With a Peer Review Rating of Pass in a System Review**

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

~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.
and the Peer Review Committee of the [insert the name of the applicable administering entity][†]

We[‡] have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)^{||} in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the Standards at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.~~

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

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.~~

Required Selections and Considerations

~~As required by the standards, e~~Engagements selected for review included (engagements

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements].[#]

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

Opinion

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

Smith, Jones and Associates
[Name of team captain's firm]

DRAFT

[#] If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2), or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

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Appendix D

Illustration of a Report With a Peer Review Rating of *Pass* (*With a Scope Limitation*) in a System Review

Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm's only engagement in an industry that must be selected is unavailable for review and there isn't an earlier issued engagement that may be able to replace it, or when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of *pass*, *pass with deficiency(ies)* or *fail*. In this example, the scope limitation was included in a report with a peer review rating of *pass*.

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

~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [*or other appropriate terminology*]
XYZ & Co.

and the Peer Review Committee of the [*insert the name of the applicable administering entity*][†]

We[‡] have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)^{||} in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the sStandards at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

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

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.~~

Required Selections and Considerations

~~As required by the standards, e~~Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]).#

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

Scope Limitation

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

Opinion

~~In performing our review, the firm notified us that we would be unable to review the engagements performed by one of its former partners who left the firm during the peer review year. Accordingly, we were unable to include in our engagement selection any of the divested engagements. That partner's responsibility was concentrated in the construction industry. The engagements excluded from our engagement selection process included audit engagements and comprised approximately 15 percent of the firm's audit and accounting practice during the peer review year.~~ In our opinion, except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review divested engagements, as **previously** described ~~above~~, the

If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. **The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits).** If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

system of quality control for the accounting and auditing practice of XYZ & Co.¹¹ in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. XYZ & Co. has received a peer review rating of *pass (with a scope limitation)*.

Smith, Jones and Associates
[Name of team captain's firm]

DRAFT

¹¹ The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

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Appendix E

Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

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

~~System Review Report~~ Report on the Firm's System of Quality Control

August 31, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable administering entity][†]

We[‡] have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)^{||} in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

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

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

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and~~

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

~~the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.~~

Required Selections and Considerations

~~As required by the standards,~~ Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]).#

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

Deficiencies⁴ Identified and Peer Reviewer Recommendations

We noted the following deficiencies during our review:

1. **Deficiency**—The firm’s quality control policies and procedures do not provide its staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm’s review and compilation working papers did not include documentation of all procedures required by professional standards, in particular relating to accounts and notes payable. We were able to satisfy ourselves that, in each case, sufficient procedures had been performed, and the firm subsequently prepared the appropriate documentation.

Recommendation—The firm’s quality control policies and procedures should be revised to ensure documentation of all procedures performed as required by professional standards. Although not required by professional standards, the firm should consider using the practice aids in the reference manuals available in the firm’s library in order to accomplish this step.

2. **Deficiency** The firm’s quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but the standards emphasize the importance of proper planning to the conduct of the engagement. We found several audits performed in which, as a result of a lack of involvement including timely supervision by the engagement partner in planning the audit, the work performed on contracts, contract provisions, and related receivables did not support the firm’s opinion on the financial statements. **This deficiency applies to engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations (Service Organization Control [SOC] 1 and 2 engagements), and other industries.** The firm has subsequently performed **or is in the process of performing** the necessary additional procedures to provide a satisfactory basis for its opinion.

If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. **The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits).** If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

⁴ **Should be tailored to indicate a single deficiency, when applicable.**

Recommendation—The firm’s quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.

3. Deficiency—The firm’s quality control policies and procedures require that financial statement reporting and disclosure checklists appropriate to the industry of the engagement being performed be completed. Our review noted that these checklists were not being used on all audit engagements. As a result, on certain audit engagements in the construction industry, the financial statements were missing several significant disclosures specific to the industry as required by generally accepted accounting principles. The subject reports have been recalled, and the financial statements are being revised. The firm has evaluated the audit engagement deficiencies and taken actions to remediate.

Recommendation—The firm should conduct a training session for all personnel to review the firm’s policies and procedures for utilizing financial statement reporting and disclosure checklists that are appropriate to the industry of an engagement. The engagement partner should carefully review these checklists at the completion of an engagement to ensure that the appropriate checklists are utilized and to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm’s engagement review checklist requiring the engagement partner to document his or her review of these checklists.

3. Deficiency⁵ —The firm’s quality control policies and procedures require use of standardized materials that outline steps for performing and documenting audit planning considerations regarding preliminary judgments about materiality levels, fraud risk factors, planned assessed level of control risk, analytical review procedures, and conditions that may require an extension of or a modification of tests. However, our review disclosed several instances in which the firm’s audit planning working papers did not include documentation for these areas other than a sign off of the related program steps. The firm is performing appropriate remediation to support its conclusions.

Recommendation—The firm should hold a training session for all personnel to review the matters to be considered, performed and documented in planning audit engagements. In addition, the firm should consider this in developing its CPE plan for the current year. These important audit procedures, including documentation, should be emphasized in the engagement partner’s review and its monitoring procedures.

Opinion

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

⁵ This example is intended to illustrate a deficiency that is not industry specific and also does not relate to any must select industries or practice areas.

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

Smith, Jones and Associates
[Name of team captain's firm]

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Appendix G**Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review**

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm's only engagement in an industry that must be selected is unavailable for review and there isn't an earlier issued engagement that may be able to replace it, or when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of *pass*, *pass with deficiency(ies)*, or *fail*. In this example, the scope limitation was included in a report with a peer review rating of *pass with deficiencies*, where one of the deficiencies related to the circumstances of the scope limitation.

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

~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable administering entity][†]

We[‡] have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)^{||} in effect for the year ended June 30, 20XX. Except as described below, our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the Standards at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating~~

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

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.~~

Required Selections and Considerations

~~As required by the standards,~~ Engagements selected for review included (audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]).[#]

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

~~In performing our review, the firm notified us that we would be unable to select its only audit subject to Government Auditing Standards (Yellow Book). As a result, we were unable to review all of the types of engagements required to be selected by the standards established by the Peer Review Board of the AICPA.~~

Deficiencies⁶ Identified and Peer Reviewer Recommendations

We noted the following deficiencies during our review:

1. **Deficiency**—The firm's quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but the standards emphasize the importance of proper planning to the conduct of the engagement. We found several audits performed in which, as a result of a lack of involvement, including timely supervision by the engagement partner in planning the audit, the work performed on contracts, contract provisions, and related

[#] If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

⁶ Should be tailored to indicate a single deficiency, when applicable.

receivables did not support the firm’s opinion on the financial statements. The firm has subsequently performed the necessary additional procedures to provide a satisfactory basis for its opinion.

Recommendation—The firm’s quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.

2. Deficiency—As noted ~~above~~below, in performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards* (Yellow Book). As a result, the firm was not in compliance with the Yellow Book peer review engagement selection requirements.

Recommendation—We recommend that the firm consider the importance of adhering to the Yellow Book requirements and the possible consequences of noncompliance.

Scope Limitation

In performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards* (Yellow Book). As a result, we were unable to review all of the types of engagements required to be selected by the standards established by the Peer Review Board of the AICPA.

Opinion

In our opinion, except for the effects of the deficiency ~~previously~~previously described ~~above~~ and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review the engagement as ~~previously~~previously described ~~above~~, the system of quality control for the accounting and auditing practice of XYZ & Co.¹¹ in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass with deficiencies (with a scope limitation)*.

Smith, Jones and Associates
 [Name of team captain’s firm]

¹¹ The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

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Appendix I

Illustration of a Report With a Peer Review Rating of *Fail* in a System Review

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

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

~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.
and the Peer Review Committee of the [insert the name of the applicable administering entity][†]

We[‡] have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)^{||} in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the Standards at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.~~

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

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at~~

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

www.aicpa.org/prsummary

Required Selections and Considerations

~~As required by the standards,~~ Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and 2 engagements]).#

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

Significant Deficiencies⁷ Identified and Peer Reviewer Recommendations

We noted the following significant deficiencies^{##} during our review:

1. Deficiency—The firm’s quality control policies and procedures do not require written audit programs as required by professional standards. As a result, we noted several instances in which audit procedures were not adequately performed and documented in the areas of investments and expenses. As a result, the audit work performed for several audits did not support the opinion issued and was not performed in conformity with applicable professional standards. This deficiency applies to engagements performed under *Government Auditing Standards*, audits of employee benefit plans, and other industries. The firm has subsequently performed the omitted procedures to support the audit opinions.

Recommendation—The firm’s quality control policies and procedures should require the use of audit programs on all audits. All audit programs should be retained with the engagement working papers.

2. Deficiency—The firm’s quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted instances in which the firm did not consult during the year, either by use of the firm’s technical reference material or by requesting assistance from outside the firm. As a result, financial statements on audits for development stage companies did not conform with applicable professional standards. The firm was not aware of the unique disclosure and statement presentations required until it was brought to its attention during the peer review. ~~The firm intends to recall and reissue the financial statements and reports.~~ The firm has evaluated the audit engagement deficiencies and taken actions to remediate.

Recommendation—The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm’s accounting and auditing personnel.

If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations or service organizations (Service Organization Control [SOC] 1 and 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

⁷ Should be tailored to indicate a single significant deficiency, when applicable.

^{##} When considered together, the deficiencies rise to the level of significant deficiencies.

3. Deficiency—The firm’s quality control policies and procedures do not provide its personnel with a means of ensuring that all necessary procedures are performed on Employee Retirement Income Security Act (ERISA) engagements. During our review, we noted that the firm failed to adequately perform, including appropriately documenting, procedures related to benefit payments on ERISA engagements. The firm has subsequently performed the testing and documented its procedures.

Recommendation—The firm should review and implement the requirements of specialized industries. This can be accomplished by the purchase and use of practice aids tailored to the industry.

4. Deficiency—The firm’s quality control policies and procedures require that financial statement reporting and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures as required by generally accepted accounting principles. ~~The subject reports have been recalled, and the financial statements are being revised~~The firm has evaluated the audit engagement deficiencies and taken actions to remediate.

Recommendation—The firm should conduct a training session for all personnel to review the firm’s policies and procedures for utilizing financial statement reporting and disclosure checklists specific to the industry of the engagement, when available. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm’s engagement review checklist requiring the engagement partner to document his or her review of these checklists.

Opinion

In our opinion, as a result of the significant deficiencies previously described ~~above~~, the system of quality control for the accounting and auditing practice of XYZ & Co.¹¹ in effect for the year ended June 30, 20XX, was not suitably designed or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

Smith, Jones and Associates
 [Name of team captain’s firm]

¹¹ The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

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Appendix K

Illustration of a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review

The deficiencies and related recommendations provided are examples provided for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *pass with deficiencies* or *fail*.

Limitation on Scope of Review

A report with a scope limitation should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more peer review procedure(s) considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if the firm's only engagement in an industry that must be selected is unavailable for review and there is not an earlier issued engagement that may be able to replace it, or when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began (see interpretation). A scope limitation may be included in a report with a peer review rating of *pass*, *pass with deficiency(ies)*, or *fail*. In this example, the scope limitation was included in a report with a peer review rating of *fail*.

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

~~System Review Report~~ Report on the Firm's System of Quality Control

October 31, 20XX

To the Partners of [or other appropriate terminology]

XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable administering entity][†]

We[‡] have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)^{||} in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the Standards at www.aicpa.org/prsummary. The summary also includes an

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

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

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.~~

Required Selections and Considerations

~~As required by the standards, e~~Engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements]).[#]

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

~~In performing our review, the firm notified us that we would be unable to review the engagements performed by one of the firm's four offices that divested from the firm during the peer review year. As a result, we were unable to include within our engagement selection any engagements issued by that office. The engagements excluded from our engagement selection process included audit engagements and composed approximately 20 percent of the firm's audit and accounting hours during the peer review year.~~

Significant Deficiencies⁸ Identified and Peer Reviewer Recommendations

~~In addition, w~~We noted the following significant deficiencies^{##} during our review:

1. Deficiency—The firm's quality control policies and procedures do not require written audit programs as required by professional standards. As a result, we noted several instances in which audit procedures were not adequately performed and documented in the areas of investments and expenses. As a result, the audit work performed for several audits did not support the opinion issued and was not performed in conformity with applicable professional standards. The firm has subsequently performed the omitted procedures to

[#] If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations of service organizations (Service Organization Control [SOC] 1 and 2) or other engagements required to be selected by the board in interpretations, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

⁸ Should be tailored to indicate a single significant deficiency, when applicable.

^{##} When considered together, the deficiencies rise to the level of significant deficiencies.

support the audit opinions.

Recommendation—The firm’s quality control policies and procedures should require the use of audit programs on all audits. All audit programs should be retained with the engagement working papers.

2. Deficiency—The firm’s quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted instances in which the firm did not consult during the year, either by use of the firm’s technical reference material or by requesting assistance from outside the firm. As a result, financial statements on audits for development stage companies did not conform with applicable professional standards. The firm was not aware of the unique disclosure and statement presentations required until it was brought to its attention during the peer review. ~~The firm intends to recall and reissue the financial statements and reports. The firm has evaluated the audit engagement deficiencies and taken actions to remediate.~~

Recommendation—The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm’s accounting and auditing personnel.

3. Deficiency—The firm’s quality control policies and procedures do not provide its personnel with a means of ensuring that all necessary procedures are performed on Employee Retirement Income Security Act (ERISA) engagements. During our review, we noted that the firm failed to adequately perform, including appropriately documenting, procedures related to benefit payments on ERISA engagements. The firm has subsequently performed the testing and documented its procedures.

Recommendation—The firm should review and implement the requirements of specialized industries. This can be accomplished by the purchase and use of practice aids tailored to the industry.

4. Deficiency—The firm’s quality control policies and procedures require that financial statement reporting and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, the reviewed financial statements in the construction industry were missing several significant disclosures as required by generally accepted accounting principles. ~~The subject reports have been recalled and the financial statements are being revised. The firm has evaluated the audit engagement deficiencies and taken actions to remediate.~~

Recommendation—The firm should conduct a training session for all personnel to review the firm’s policies and procedures for utilizing financial statement reporting and disclosure checklists specific to the industry of the engagement, when available. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm’s engagement review checklist requiring the engagement partner to document his or her review of these checklists.

Scope Limitation

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of the firm's four offices that divested from the firm during the peer review year. As a result, we were unable to include within our engagement selection any engagements issued by that office. The engagements excluded from our engagement selection process included audit engagements and composed approximately 20 percent of the firm's audit and accounting hours during the peer review year.

Opinion

In our opinion, as a result of the significant deficiencies previously described ~~above~~, and any additional significant deficiencies that might have come to our attention had we been able to review engagements from the divested office as previously described ~~above~~, the system of quality control for the accounting and auditing practice of XYZ & Co.¹¹ in effect for the year ended June 30, 20XX was not suitably designed or complied with to provide the firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail (with a scope limitation)*.

Smith, Jones and Associates
[Name of team captain's firm]

¹¹ The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

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Appendix M

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

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).

[*Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association formed review team*]

~~Engagement Review Report~~ Report on the Firm's Conformity With Professional Standards on Engagements Reviewed⁹

September 30, 20XX

To the Partners of [*or other appropriate terminology*]
XYZ & Co.

and the Peer Review Committee of the [*insert the name of the applicable administering entity*][†]

We[‡] have reviewed selected accounting engagements of XYZ & Co. (the firm)^{||} issued with periods ending or report dates during the year ended June 30, 20XX, as applicable. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the Standards at www.aicpa.org/prsummary.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Peer Reviewer's Responsibility

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. ~~The nature, objectives, scope, limitations of, and the procedures performed in an~~

⁹ The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

~~Engagement Review are described in the standards at www.aicpa.org/prsummary.~~

Opinion

Based on our review, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co. issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass*.

Smith, Jones and Associates

[Name of review captain's firm on firm-on-firm review or association formed review team]

[or]

John Brown, Review Captain

[Committee-appointed review team review]

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Appendix N

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

This illustration assumes the review captain concludes that deficiencies are not evident on all of the engagements submitted for review. 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).

[Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association formed review team]

~~Engagement Review Report~~ Report on the Firm's Conformity With Professional Standards on Engagements Reviewed¹⁰

September 30, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable administering entity][†]

We[‡] have reviewed selected accounting engagements of XYZ & Co. (the firm)^{||} issued with periods ending or report dates during the year ended June 30, 20XX, as applicable. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the sStandards at www.aicpa.org/prsummary.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

¹⁰ The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Peer Reviewer's Responsibility

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. ~~The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at www.aicpa.org/prsummary.~~

Deficiencies¹¹ Identified and Peer Reviewer Recommendations

We noted the following deficiencies^{***} during our review:

1. **Deficiency**—On one review engagement of a manufacturing client, we noted that the accompanying accountant's report was not appropriately modified. The financial statements did not appropriately present or disclose matters in accordance with industry standards. The firm discussed the departure with the client and decided to recall its report and restate the accompanying financial statements in order to report in conformity with applicable professional standards in all material respects.

Recommendation—We recommend that the firm establish a means of ensuring that financial statements present or disclose matters in accordance with industry standards. Such means might include continuing professional education in the industries of the firm's engagements and, although not required by professional standards, use of a comprehensive reporting and disclosure checklist on accounting engagements that is tailored for specialized industries, where applicable, or a cold review of reports and financial statements prior to issuance.

2. **Deficiency**—On a review engagement we reviewed, we noted that the firm failed to obtain a management representation letter, and its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures. These deficiencies were identified on the firm's previous review.

Recommendation—The firm should review and implement the requirements for obtaining management representation letters and the content of the accountant's working papers on review engagements.

Opinion

Based on our review, except for the deficiencies previously described ~~above~~, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co.^{||} issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass with deficiencies*.

Smith, Jones and Associates

[Name of review captain's firm on firm-on-firm review or association formed review team]

¹¹ Should be tailored to indicate a single deficiency, when applicable.

^{***} The deficiencies and related recommendations provided are examples provided for illustrative purposes only.

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

[or]

John Brown, Review Captain
[Committee-appointed review team review]

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Appendix P

Illustration of a Report With a Peer Review Rating of *Fail* in an Engagement Review

The deficiencies in this illustration represent various examples and are not intended to suggest that the peer review would include this many engagements in the scope or require this number of deficiencies to warrant a report with a peer review rating of *fail*. However, each of the engagements reviewed would have one or more deficiencies in a report with 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).

[Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association formed review team]

~~Engagement Review Report~~ Report on the Firm's Conformity With Professional Standards on Engagements Reviewed¹²

September 30, 20XX

To the Partners of [or other appropriate terminology]
XYZ & Co.

and the Peer Review Committee of the [insert the name of the applicable Administering Entity][†]

We[‡] have reviewed selected accounting engagements of XYZ & Co. (the firm)^{||} issued with periods ending or report dates during the year ended June 30, 20XX, as applicable. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the Standards at www.aicpa.org/prsummary.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

¹² The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

[†] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

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

^{||} The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Peer Reviewer's Responsibility

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system. ~~The nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the standards at www.aicpa.org/prsummary.~~

Significant Deficiencies¹³ Identified and Peer Reviewer Recommendations

We noted the following significant deficiencies^{***} during our review:

1. **Deficiency**—Our review disclosed several failures to adhere to applicable professional standards in reporting on material departures from generally accepted accounting principles (GAAP) and in conforming to standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. The compilation and review engagements were in the construction and manufacturing industries, respectively. In addition, the firm did not obtain management representation letters on review engagements.

Recommendation—We recommend the firm establish a means of ensuring its conformity with applicable professional standards. In addition, we recommend the firm review and implement the requirements for obtaining management representation letters on review engagements. The firm should either participate in continuing professional education in financial statement disclosures, use a reporting and disclosure checklist on accounting engagements (tailored if the financial statements are in a specialized industry), or conduct a pre-issuance review of the engagement by an individual not associated with the engagement prior to issuance.

2. **Deficiency**—During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework⁺⁺⁺. This deficiency was noted in the firm's previous peer reviews.

Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports that should have been modified to reflect the use of a special purpose framework. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

3. **Deficiency**—In the construction industry compilation engagements that we reviewed, disclosures of material lease obligations as required by generally accepted accounting principles were not included in the financial statements, and the omissions were not disclosed in the accountant's reports.

¹³ Should be tailored to indicate a single significant deficiency, when applicable.

^{***} The deficiencies and related recommendations provided are examples provided for illustrative purposes only.

⁺⁺⁺ 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.

Recommendation—We recommend the firm review and disseminate information regarding the disclosure requirements on specialized industries to all staff involved in reviewing or compiling financial statements. In addition, we recommend that the firm establish appropriate policies to ensure that all lease obligations are disclosed in financial statements reported on by the firm. For example, a step might be added to compilation and review work programs requiring that special attention be given to these areas.

4. Deficiency—During our review of the financial statements for a compilation engagement prepared under Statement on Standards for Accounting and Review Services No. 8, for management use only, we noted that the engagement letter did not include all of the information required by applicable professional standards.

Recommendation—The firm should review the professional standards governing the information to be included in engagement letters for financial statements prepared for management use only and make sure it conforms to those standards.

Opinion

As a result of the deficiencies previously described ~~above~~, we believe that the engagements submitted for review by XYZ & Co.¹¹ issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

Smith, Jones and Associates

[Name of review captain's firm on firm-on-firm review or association formed review team]

[or]

John Brown, Review Captain

[Committee-appointed review team review]

¹¹ The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

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Appendix R

Illustration of a Report With a Review Rating of *Pass* in a Review of Quality Control Materials

~~Quality Control Materials Review Report~~ Report on the Provider’s System of Quality Control and Resultant Materials

April 30, 20XX

Executive Board of XYZ Organization
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [*identify each item covered by the opinion or refer to an attached listing*] (hereafter referred to as *materials*) of XYZ Organization (the provider) and the resultant materials in effect at December 31, 20XX. Our quality control materials review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the Standards at www.aicpa.org/prsummary.

Provider’s Responsibility

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

Peer Reviewer’s Responsibility

Our responsibility is to express an opinion on the design of the system, the provider’s compliance with that system, and the reliability of the resultant materials, based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at www.aicpa.org/prsummary.~~

User’s Responsibility

Users of the materials and this report should carefully consider the scope of this review. They should also understand the intended uses and limitations of the materials as reflected in their user instructions and related information, as well as the level of explanatory guidance provided by the materials. Users of the materials are responsible for evaluating their suitability and implementing, tailoring, and augmenting the materials as appropriate. Therefore, the reliability of the materials is also dependent on the effectiveness of these actions and could vary from user to user. Further, there may be important elements of a quality control system in accordance with the Statements on Quality Control Standards that are not included in the materials that have been subject to this review.

Opinion

In our opinion, the system of quality control for the development and maintenance of the quality control materials of the XYZ Organization was suitably designed and was being complied with

during the year ended December 31, 20XX, to provide users of the materials with reasonable assurance that the materials are reliable aids. Also, in our opinion, the quality control materials previously referred to ~~above~~ are reliable aids to assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at December 31, 20XX. Providers can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ Organization has received a review rating of *pass*.

ABC & Co.***

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*** The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.

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Appendix S

Illustration of a Report With a Review Rating of *Pass With Deficiencies* in a Review of Quality Control Materials

~~Quality Control Materials Review Report~~ Report on the Provider's System of Quality Control and Resultant Materials

April 30, 20XX

Executive Board of XYZ Organization
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [*identify each item covered by the opinion or refer to an attached listing*] (hereafter referred to as *materials*) of XYZ Organization (the provider) and the resultant materials in effect at December 31, 20XX. Our quality control materials review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the Standards at www.aicpa.org/prsummary.

Provider's Responsibility

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

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system, the provider's compliance with that system, and the reliability of the resultant materials, based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at www.aicpa.org/prsummary.~~

User's Responsibility

Users of the materials and this report should carefully consider the scope of this review. They should also understand the intended uses and limitations of the materials as reflected in their user instructions and related information, as well as the level of explanatory guidance provided by the materials. Users of the materials are responsible for evaluating their suitability and implementing, tailoring, and augmenting the materials as appropriate. Therefore, the reliability of the materials is also dependent on the effectiveness of these actions and could vary from user to user. Further, there may be important elements of a quality control system in accordance with the Statements on Quality Control Standards that are not included in the materials that have been subject to this review.

Deficiencies¹⁴ Identified and Peer Reviewer Recommendations

We noted the following deficiencies^{***} during our review:

¹⁴ Should be tailored to indicate a single deficiency, when applicable.

*** The deficiencies and related recommendations provided are examples provided for illustrative purposes only.

1. Deficiency—The provider’s policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The provider’s policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the provider during the review period indicated that several questionnaires that had significant feedback as to the accuracy of the information of certain materials were not being read, summarized, or analyzed to determine whether the quality control materials require change. During our review we noted an error in the provider’s interpretation of a recently issued professional standard in the *How To Perform Employee Benefit Plan Audits* manual. This error was also noted on several of the feedback questionnaires. However, the error was not of such significance that it affected the reliability of the aid. Our review did not note any similar issues in the other materials.

Recommendation—The provider should revise its policies and procedures to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids. In addition, the provider may wish to consider using external technical reviewers to confirm its understanding of new professional standards.

2. Deficiency—The organization’s policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to those professional standards the materials purport to encompass. During our review, we noted that such a technical review was performed on all of the materials we reviewed except for the current edition of the General Financial Statement Disclosure and Reporting checklist, Construction Contractor Disclosure checklist, and the Personal Financial Statements checklist, which had cold reviews performed by the developer. However, we were satisfied that the checklists are reliable aids.

Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

Opinion

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

ABC & Co.***

*** The report should be signed in the name of the team captain’s firm for firm-on-firm reviews or association formed review teams.

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Appendix T

Illustration of a Report With a Review Rating of *Fail* in a Review of Quality Control Materials

The deficiencies and related recommendations provided are examples for illustrative purposes only. Any one or more of the deficiencies, based on the relative importance of the deficiency to the system of quality control as a whole, could result in a report with a peer review rating of *fail*.

~~Quality Control Materials Review Report~~ Report on the Provider's System of Quality Control and Resultant Materials

October 31, 20XX

Executive Board of XYZ Organization
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of [*identify each item covered by the opinion or refer to an attached listing*] (hereafter referred to as *materials*) of XYZ Organization (the provider) and the resultant materials in effect at December 31, 20XX. Our quality control materials review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the Standards at www.aicpa.org/prsummary.

Provider's Responsibility

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

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system, the provider's compliance with that system, and the reliability of the resultant materials, based on our review. ~~The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at www.aicpa.org/prsummary.~~

User's Responsibility

Users of the materials and this report should carefully consider the scope of this review. They should also understand the intended uses and limitations of the materials as reflected in their user instructions and related information, as well as the level of explanatory guidance provided by the materials. Users of the materials are responsible for evaluating their suitability and implementing, tailoring, and augmenting the materials as appropriate. Therefore the reliability of the materials is also dependent on the effectiveness of these actions and could vary from user to user. Further, there may be important elements of a quality control system in accordance with the Statements on Quality Control Standards that are not included in the materials that have been subject to this review.

Significant Deficiencies¹⁵ Identified and Peer Reviewer Recommendations

We noted the following significant deficiencies^{##} during our review:

1. **Deficiency**—The organization’s policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization’s policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that several questionnaires that had significant feedback as to the accuracy of the information of certain materials were not being read, summarized, or analyzed to determine whether the quality control materials require change. During our review we noted errors in the provider’s interpretation of recently issued professional standards in the *How To Perform Employee Benefit Plan Audits*, *How To Perform Audits of Small Businesses* and *How To Perform Construction Contractor Reviews* manuals. The errors were identified on several of the feedback questionnaires. As a result, these specific materials were inaccurate and, thus, were not reliable aids.

Recommendation—The organization should revise its policies and procedures to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids. In addition, the provider may wish to consider using external technical reviewers to confirm its understanding of new professional standards.

2. **Deficiency**—The organization’s policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming to the professional standards the materials purport to encompass. During our review, we noted that such a technical review was not performed on the *How To Perform Single Audits* and *How To Perform HUD Audits* manuals. As a result, these materials were not up-to-date or were inaccurate, and thus were not reliable aids.

Recommendation—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

Opinion

In our opinion, as a result of the deficiencies **previously** described ~~above~~, the system of quality control for the development and maintenance of the quality control materials of XYZ Organization was not suitably designed and/or complied with during the year ended December 31, 20XX, to provide the users of the materials with reasonable assurance that the materials are reliable aids. Also, in our opinion, the quality control materials **previously** referred to ~~above~~ are not reliable aids and do not assist users in conforming with the components which are integral to the professional standards the materials purport to encompass at December 31, 20XX. Providers can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ Organization has received a review rating of *fail*.

¹⁵ Should be tailored to indicate a single significant deficiency, when applicable.

^{##} When considered together, the deficiencies rise to the level of significant deficiencies.

ABC & Co.**

DRAFT

** The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.

Reviewer Performance and Quality Update

Objective of Peer Reviewer Quality and Performance Initiative

To enhance the quality of peer reviewers by:

- Reassessing the qualifications to serve as a reviewer or team/review captain,
- Developing means to measure reviewer competency as it relates to peer review and A&A,
- Taking a fresh look at the technical review process, and
- Developing a communication plan to recruit new reviewers with targeted expertise.

Accomplishments/Status

- The changes to the standards and interpretations related to reviewer qualifications, performance, disagreements and fair procedures were approved by the PRB at the January 2015 meeting. Additional wraparound guidance was approved by the PRB at the May 2015 meeting.
- Summary of reviewer qualification changes:
Reviewers must --
 - Have spent the *last* five years in the practice of public accounting
 - Have experience at the level of service they will review
 - Meet additional qualifications to review must-select engagements, including:
 - Additional training requirements,
 - “A” level experience in the must-select area, and
 - Audit Quality Center membership
 - Maintain certain levels of performance
 - If a pattern of reviewer performance deficiencies is noted, the reviewer will be required to undergo corrective action.
 - If significant reviewer performance deficiencies are noted, the reviewer will either undergo a corrective action or be removed from the reviewer pool.
- Changes in the disagreements and fair procedures process are expected to
 - Expedite remediation or removal of poor performing reviewers
 - Improve consistency in handling of reviewer performance matters
- Changes to the reviewer qualifications, performance and fair procedures process will take effect December 31, 2015
- The additional reviewer training requirements will be effective May 1, 2016 and are further addressed in a separate agenda item
- AICPA leadership performed targeted outreach to firms with expertise in must-select industries and areas asking them to get more involved in peer review. As a result of this outreach, ~50 new peer reviewers with must-select expertise have joined the reviewer pool and the expert oversight program has ~80 new experts.

Next Steps

- Develop administrative and process enhancements to implement the approved changes for reviewer qualifications and performance
- Evaluate the current technical reviewer qualifications and processes
- Continue to develop the communication plan to recruit new reviewers with targeted expertise

Firm and Engagement Tracking “Population Completeness”

Objective

Develop efforts to ensure that all firms that should be enrolled in peer review are enrolled and efforts to ensure that all engagements that are within peer review scope are included in the population subject to peer review.

Status/Accomplishments

- Goal: Obtain federal employer identification numbers (EINs) to increase efficiency and accuracy of comparing publicly available information to information provided for peer review
 - EINs are being captured in PRISM background information forms for scheduling forms distributed since March 2015. Enrollment forms currently being distributed request the EIN and EINs will be required for all enrolling firms by October 2015.
- Goal: Identify source data for certain types of engagements performed by firms
 - Federal regulators for which we have obtained or expect obtain engagement and audit firm information
 - With EINs: DOL (ERISA audits), Federal Audit Clearinghouse (single audits), HUD (HUD Yellow Book engagements), Department of Education (proprietary schools Yellow Book engagements)
 - Without EINs: FDICIA
- Goal: Educate firms on the importance of submitting complete and accurate information regarding industries served/engagements performed and the ramifications of non-compliance with this requirement.
 - Direct communications were made regarding this initiative to managing partners and peer review contacts of firms enrolled in the AICPA Peer Review Program
 - Several changes were made to the peer review practice aids for firms and peer reviewers to enhance the focus on complete populations.
 - Staff provided recommendations and resources for technical reviewers and administrators to consider for identifying instances of noncompliance.

Next Steps

- AICPA staff is planning direct outreach to firms to obtain EIN numbers that are not obtained through other methods. The efforts will utilize technology to the extent possible, but follow up for non-responders and matching information will require manual effort. Firms that do not cooperate with the requirement to provide EINs will be dropped from the program in accordance with noncooperation guidance.
- AICPA staff continues to research sources that may be available, such as through the State Auditors Offices across the nation (for auditors of state and local governments) and NASBA through their Accountancy Licensee Database or CPAverify.org.
- Next phase of database comparisons to determine firm noncompliance for enrollment or engagement population completeness will begin after all technology, administrative, and fair procedures are in place and significant sources of data are available. Commencement of mass effort has been delayed until 2016.

Emerging Risk Industries and Areas Task Force Update

Objective

To evaluate and implement, as deemed appropriate, the recommendations made by the PTF (see PTF Recommendations section below). At present, the task force has identified both audit areas and industries (see Actions to Date section below) of heightened risk and will continue to do so. The task force has is implementing a peer review response that is multi-functional, encompassing enhanced materials, targeted training and robust peer reviews.

PTF Recommendations

0-6 months

1. Begin thinking about different philosophy of engagement selection of non focus areas of the review
 - a. Enhance engagement selection criteria
 - i. Looking at certain things but going deep
2. Begin dialogue with members who audit f/s in muni offerings and ERISA
 - a. Research
 - b. Centralized admin via NPRC
 - c. Consider state to help with pilot
 - d. Partner with AQC & ASB
3. Collect data on who's reviewing/auditing crowd funded entities (maybe through SEC registrants)

6-12 months

1. Talking about new philosophy (conference session with video)
2. Execute small scale pilot
 - a. Identify expert for pilot (maybe partner with AQC)

12-18 months

1. Rollout tools/guidance for new selection and review philosophy

Long-term

1. Annual assessment of landscape (regulatory, standard setting, industry)
2. Input from others
3. Emerging issues
4. Surveying tools
5. Post implementation review on 'is peer review moving the needle' (have we created a more robust environment)

Actions to Date (by identified emerging industry and risk area)

General

- Peer review courses changed to reflect themes.
- Websites (<http://www.aicpa.org/InterestAreas/PeerReview/Pages/EAQ.aspx> and <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PR-Areas-Focus.aspx>) developed.
- No additional themes for 2017 were announced due to concerns about the dilutive effect this would have on the current “deep dive” areas.

Independence as it relates to nonattest services provided to audit clients, particularly with respect to sufficiency of the client’s skills, knowledge and experience to oversee the services

- Evaluated to ensure sufficient resources (manuals, courses, etc.) – see table below.
- Webinar on the AICPA's Revised Code of Professional Conduct was June 23, 2014.
- Blog post on Independence theme is at <http://blog.aicpa.org/2014/10/peer-review-focus-on-maintaining-independence.html#sthash.H4kNdNUy.dpbs>.
- Conference cases related to topic area drafted and approved.
- All engagement profiles revised and checklist questions were added to focus reviewers on critical areas. These will be available with May 2015 manual.
- Webinar on current year deep dive areas was held July 7, 2015.

Sufficiency of audit evidence, in particular, risk assessment (including linkage to financial statement assertions), internal controls, and sampling

- Evaluated to ensure sufficient resources (manuals, courses, etc.) – see table below.
- Webinar on sufficiency of audit evidence in risk assessment, internal controls, and sampling was November 17th and rebroadcast on December 18th, 2014.
- Blog post in progress.
- Conference case related to topic area drafted and approved.
- Checklists revamped and checklist questions were added to focus reviewers on critical areas. These will be available with May 2015 manual.
- Webinar on current year deep dive areas was held July 7, 2015.

Employee benefit plan audits, including audits of both ERISA and government pensions

- Evaluated to ensure sufficient resources (manuals, courses, etc.) – see table below.

Issuers of municipal securities

- Evaluated to ensure sufficient resources (manuals, courses, etc.) – see table below.

The announced industries and areas arranged by the date of anticipated inclusion in the peer review checklists (the end of the process and thus, an effective measurement date) are as follows:

<u>Area</u>	<u>Product availability</u>	<u>Peer Review Manual Inclusion</u>
Independence as it relates to nonattest services provided to audit clients	Currently available	Currently available
Independence as it relates to nonattest services provided to audit clients, particularly with respect to sufficiency of the client's skills, knowledge, and experience to oversee the services	Currently available	Currently available
Sufficiency of audit evidence, in particular: <ul style="list-style-type: none"> • Sampling • Risk assessment • Internal controls 	<ul style="list-style-type: none"> • Currently available • Currently available (new) • Currently available 	<ul style="list-style-type: none"> • Currently available • Currently available • Currently available
Employee Benefit Plans, specific areas and plan types to be determined but will include ESOPs and government pensions	Currently available	Currently available
Municipalities that issue securities	Currently assessing	2015
Crowdfunding	Currently assessing Planning underway for web event in Spring/Summer 2015 to discuss business opportunity/risks.	2016
Single audit, specific areas to be determined	Currently assessing	2016

Next Steps

- Staff to continue monitoring identified emerging risk industries and areas.
- Task force to continue working on action items. No meeting is planned at this time.

Peer Review Reporting

Objective

- Determine if the current reporting model continues to serve the needs of the users of the report, including reviewers, firms, regulators, and State Boards of Accountancy.
- Explore ways to make peer review results more informative

Status/Accomplishments

- Input was obtained from peer review stakeholders via the EAQ Initiative Discussion paper and meetings with representatives from stakeholders such as the state boards, DOL, Inspector Generals, SOC and broker-dealer expert groups, banking associations, and audit committees.
- Clarifying changes to the peer review report are proposed in Agenda Item 1.3.

Next Steps

- The task force will further explore ways to make peer review results more informative and plans to reassess user needs after the AICPA implements the other EAQ initiatives.

Update on Enhanced Oversight Initiative

Why is this on the Agenda?

The enhanced oversight initiative was approved by the Board in May of 2014. The overall goal of this initiative is to enhance audit quality. This goal is achieved through the use of subject matter experts (SMEs) to independently evaluate a firm's must-select engagements (Yellow Book, ERISA, SOC 1 and 2, carrying broker dealers and FDICIA). The group of SMEs consists of members of the quality center expert panels, Board members, former Board members, and individuals recommended by the quality center expert panel members. The SMEs come from firms of all sizes and are considered peers of the reviewed firms.

2014 Enhanced Oversight

The population for the 2014 enhanced oversight was all system reviews performed from January 1, 2014 to December 31, 2014 with a must-select engagement reviewed during the peer review. The enhanced oversight performed for 2014 peer reviews included a random sample and a targeted sample. The random sample of oversight was a statistical sample selected in order to achieve a 95% confidence rating. The confidence rating is the likelihood that the sample is representative of the entire population, therefore, the random sample has a 95% likelihood of representing the entire population of reviews performed in calendar year 2014. The targeted sample is determined by the Oversight Task Force. For the 2014 oversight, the targeted sample consisted of high volume reviewers. The high volume reviewers are reviewers who served as team captains on the highest number of system reviews from 2011 to 2013. If a high volume reviewer was selected in the random sample, they were not selected again in the targeted sample. The high volume reviewers selected through the random and targeted sample were the team captains on 16% of all peer reviews between 2011 and 2013.

The total sample size selected for the 2014 enhanced oversight was 90 peer reviews, 75 random selections and 15 targeted selections. Once a peer review was selected for oversight, one must-select engagement was selected for oversight from the population of engagements reviewed by the peer review team. If more than one must-select engagement was reviewed during the peer review, AICPA Staff randomly selected one of the must-select engagements for oversight. The oversight selections included 48 ERISA engagements, 9 Government Auditing Standards (GAS) engagements, 32 A-133 engagements, and 1 SOC engagement. For the A-133 engagements selected, the SMEs only reviewed the A-133 compliance portion of the audit.

The oversight is a "surprise" oversight. The peer reviewer is not notified that the peer review was selected for oversight until after the report and working papers have been submitted to the Administering Entity (AE). Once the SME completes their review of the engagement, the SME provides a listing of the issues they identified to the peer reviewer for comment and further consideration. The peer reviewers are allowed ample opportunity to respond to the listing of issues provided by the SME.

Results of the oversights as of July 8, 2015 are:

Overall Completed	87
Non-conforming engagement identified	37
% non-conforming of overall	43%
Peer Reviewer Identified as non-conforming	7
% identified by peer reviewer	8%
Random Completed	72
Non-conforming engagement identified	30
% non-conforming of overall	42%
Peer Reviewer Identified as non-conforming	7
% identified by peer reviewer	10%

Of the 37 non-conforming engagements identified in the overall sample, 20 were ERISA engagements, 12 were A-133 engagements, 4 were GAS engagements, and 1 was a SOC engagement. Of the 30 non-conforming engagements identified in the random sample, 16 were ERISA engagements, 9 were A-133 engagements, 4 were GAS engagements, and 1 was a SOC engagement. All 7 of the non-conforming engagements identified by the peer reviewer were ERISA engagements.

All issues that were not identified by the peer reviewer are included in the oversight report. The oversight report is provided to the Administering Entity of the peer review. Based on the results of the oversight, the reviewer is expected to evaluate the effect of the oversight report on the peer review results and perform any additional procedures that may be necessary. The Administering Entity's Peer Review Committee is responsible for determining if the team captain or team member has performance deficiencies and that the firm's response is appropriate to any non-conforming engagements identified.

In June 2015, AICPA Staff issued a communication via email to Peer Review Committees and Technical Reviewers on how to handle the oversight reports where the peer reviewer did not identify a non-conforming engagement. The communication indicated that the Report Acceptance Bodies (RABs) should document their reasons for not issuing performance deficiency letters, if they determine that one is not required. AICPA Staff are monitoring the results of the oversights and the types of feedback issued through RAB observations.

The peer reviews with oversight reports where the SME identified a non-conforming engagement that was not identified by the peer reviewer are currently making their way through the RAB process. Many reviewers are not properly addressing the results or they are disputing the results

of the oversight. Currently, we have limited information on the effect of the oversights on the peer review results and the types of feedback issued to reviewers. AICPA Staff will continue to gather the results for future presentation.

AICPA Staff has made several observations of why reviewers are not identifying non-conforming engagements. Those observations include:

- *Insufficient research.* Reviewers may not always perform sufficient research or consultation to gain an understanding of areas they don't fully understand.
- *Incorrect assumptions.* Instead of verifying information, reviewers appeared to assume that the firm performed the correct procedures.
- *Lack of time.* Reviewers were not always allowing enough time to review the must-select engagements. As noted below, based on feedback, reviewers are spending 3 to 4 hours reviewing the must-select engagements. The SMEs are spending approximately 6 hours reviewing the must-select engagements.
- *Lax evaluation of standards.* Reviewers were giving firms partial credit for items contained in the audit files and oftentimes appeared too lenient when assessing the significance of the issue they discovered.

2015 Enhanced Oversight

For the 2015 oversights, the sample will be expanded to 150 oversights. The 2015 oversights will also include the addition of an onsite component, with a selection of 25 of the 2015 oversights being performed onsite. Another addition to the 2015 oversights is a root cause analysis. The root cause analysis will require the SME to analyze the firm's system of quality control to determine the elements that support the firm's issuance of a conforming or non-conforming engagement, depending on the result of the oversight. The AICPA will provide training to the SMEs on the root cause analysis. The root cause analysis will be used to determine the areas of a firm's system of quality control that are critical to issuing conforming engagements. This information will also be used to enhance quality control and peer review guidance.

For the 2015 oversights, the SMEs will consist of members of the applicable Audit Quality Center executive committees and expert panels, PRB members, former PRB members, individuals recommended by the Audit Quality Center executive committee and expert panel members, and individuals from applicable quality center member firms that perform a large volume of engagements (over 100) in the applicable must-select category.

The 150 oversights FOR 2015 will consist of:

- A random selection of 75 reviews, sufficient to provide confidence (at a 95% level) that the sample selected is representative of the population.
- A targeted selection of at least 75 reviews. The targeted sample will include:
 - At least 15 low volume reviewers whose firms only perform 1-5 of the type of must-select engagement based on public databases.
 - At least 15 low volume firms that only perform 1-5 of the type of must-select engagement based on public databases.
 - At least 45 engagements based on targeted industries specified by the PRB.

Feedback Received

The majority of the feedback received by AICPA Staff has been focused on the fact that the SMEs are spending more time reviewing the must-select engagement than the average peer reviewer. Based on feedback, the average peer reviewer spends 3 to 4 hours reviewing a must-select

engagement. Some reviewers have indicated that they spend as little as 2 hours reviewing the engagement. On average the SMEs have spent approximately 6 hours reviewing the must-select engagements. Regardless of how many hours the peer reviewer spent reviewing the engagement, the peer reviewers should be identifying the non-conforming engagements. A majority of the material departures from professional standards identified by the SMEs relate to the bolded questions on *PRP Section 20,700 Employee Benefit Plan Audit Engagement Checklist* or they relate to the questions on *PRP Section 22,100 – Part A Supplemental Checklist for Review of Single Audit Act/A-133 Engagements*. These questions are generally considered material departures from professional standards unless the reviewed firm can provide an adequate explanation for the departure.

Next, committees and reviewers were concerned that the SMEs are not team captain qualified. The SMEs are only reviewing the one must-select engagement, similar to team members on a peer reviewer. The SMEs are given instructions on how to perform the oversight. The SMEs do not need to be team captain qualified because they are not evaluating the firm's system of quality control. For the root cause analysis for the 2015 oversights, AICPA Staff will be providing training to the SMEs.

Finally, reviewers have expressed concern that they are not allowed to use their professional judgment or that the SME is overruling their professional judgment. This feedback has been received when the reviewer believed that the firm performed all of the required procedures, but, the procedures were not properly documented. The SMEs take the peer reviewers' and firms' responses into account during the oversights. The peer reviewers did not identify these issues as "no" answers on the checklists. Also, the peer reviewers are allowing the firms to provide verbal explanations that were not included in the audit files. Generally, the volume of missing documentation from the audit file has been significant and there is very little question as to whether there is a documentation deficiency.

PRISM Impact

N/A

AE Impact

The oversights have caused some delays in the RAB process for the reviews selected for oversight. AICPA Staff is instituting new procedures for the 2015 oversights that will speed up the process and reduce any delays in acceptance of the reviews.

Communications Plan

The results of the oversights will be communicated in the Peer Review Program Annual Report on Oversight.

Manual Production Cycle (estimated)

N/A

Effective Date

N/A

Board Consideration

Provide feedback on the enhanced oversight process and the 2015 oversight sample.

Discussion of New Reviewer Training Guidance

Why is this on the Agenda?

During its May 2015 meeting, the Peer Review Board approved changes to the education framework for new and existing reviewers. In short, the following changes were made:

- The initial training requirement was changed from a two day live seminar course to a curriculum of on-demand self-study courses and a one-day live seminar.
- The ongoing training requirement was essentially changed from an 8-hour every three year requirement to an annual requirement.
- Required must-select training courses were introduced for certain must-select industries. These courses are required annually for any individual reviewing engagements in these industries.

See Agenda Item 1.6A for the approved education framework.

Since it was approved, Staff have received a number of questions on our hotline and through other mediums related to the new framework. Additionally, other administering entities have noted they have received numerous questions from their members. Commonly asked questions include:

- What courses can I take in the current year to meet the new requirement?
- Would attending the Conference this year meet the new requirement?
- When will the new courses become available?
- Does attending an EBP or Governmental specific conference satisfy the new requirement?

Feedback Received

Feedback from the EAQ comment paper, as well as other miscellaneous feedback from other stakeholders, was incorporated into the approved framework. Feedback received since the May PRB meeting has been discussed with members of the Education and Communication Task Force at its most recent meeting.

PRISM Impact

PRISM programming is undergoing the necessary updates to allow reviewers to update their resumes to indicate that they have completed the necessary courses to meet both the initial and ongoing training requirements.

AE Impact

None specifically related to this agenda item.

Communications Plan

As a result of the May meeting a Peer Review Alert was issued describing the changes to the education framework. Additionally, a transition chart outlining how reviewers can meet the new requirement was created and included in the open session materials for the May meeting. Finally, Staff are creating an FAQ document that would ultimately be published on AICPA.org after any necessary revisions are made.

Manual Production Cycle (estimated)

N/A

Effective Date

Revisions to the education framework are effective for reviews commencing after May 1, 2016.

Board Consideration

Board members and other attendees should discuss:

- Any questions they may have related to the framework.
- Any suggestions they may have to help provide additional clarity to peer reviewers
- Any other comments or suggested revisions

Current initial educational framework for team captains and review captains

1) *Team Captain Initial Qualification*

Theory	Practical Application
Day 1 of "How To Conduct a Review Under the AICPA Practice Monitoring Program" in live seminar format	Day 2 of "How To Conduct a Review Under the AICPA Practice Monitoring Program" in live seminar format
"How To Conduct a Review Under the AICPA Practice Monitoring Program" in self-study format	Participation in the AICPA Peer Review Mentor Program
Peer Review Competency Exam	

2) *Review Captain Initial Qualification*

1. Meet the initial qualification requirements for a System Review team captain, OR
2. Complete the first day of the AICPA two-day introductory reviewer training, How To Conduct a Review Under the AICPA Practice Monitoring Program" in live seminar format, OR
3. Complete "How To Perform an Engagement Review Under the AICPA Practice Monitoring Program" in live seminar format.

Proposed initial educational framework for team captains and review captains

1) *Team and Review Captain Initial Qualification*

Theory	Practical Application
Online peer reviewer curriculum with content divided into modules and testing at the end of each module.	"How To" Case Study

For practical purposes, this means:

- Elimination of:
 - Live seminar for Day 1 of How To Course
 - Self-study How To Course in its current form
 - Competency test
 - Mentor Program
 - Engagement Review course
- Introduction of:
 - A peer reviewer curriculum with individual modules. Each module will contain a competency assessment.
 - A standalone 8-hour live seminar "How To" Course based on Day 2 of the current course

Current ongoing educational framework for team captains and review captains

1) Team Captain Ongoing Qualification

1. Participating in the National Peer Review Conference which provides at least eight hours of CPE that meet the peer reviewer continuing training requirement.
2. Completing the "AICPA Advanced Course: Overview of the AICPA Peer Review Program Standards."
3. Completing either Day 1 or Day 2 of the "How To Conduct a Review Under the AICPA Practice Monitoring Program" in live seminar format. Note: This option for ongoing education will no longer be available starting in May 2015.
4. Participating in eight hours of approved peer review webcasts in the three years prior to the commencement of the review

2) Review Captain Ongoing Qualification

1. Meet the ongoing qualification requirements for a System Review team captain, OR
2. Complete "How To Perform an Engagement Review Under the AICPA Practice Monitoring Program" in live seminar format.

Proposed ongoing educational framework

1) Team and Review Captain Ongoing Qualification

1. Attend an annual peer review update course which will include how the latest developments in A&A standards impact peer review. This course will include a competency assessment, OR
2. Attend the annual Peer Review Conference, OR
3. Attend an alternative course or conference session that has been approved by the Peer Review Board.

For practical purposes, this means:

- Elimination of:
 - Triennial education requirements
 - The Advanced Course
 - The How To Course as an ongoing training option
 - The option to attend 8 hours of webcasts every three years
 - Engagement Review course
 - The requirement that PR staff develop at least two webcasts per year
- Introduction of:
 - Annual education requirements
 - New required webcasts for team captains and review captains

Current training requirements for reviewers of must-select engagements:

None.

Proposed training requirements for reviewers of certain must-select engagements;

1. Attend an annual course on the industry they intend to review, which would include a competency exam, OR
2. Attend the annual industry updates on the day preceding the general session of the Peer Review Conference

Discussion on Potential RAB and Technical Reviewer Training Requirements

Why is this on the Agenda?

One of the facets of the AICPA’s 6-point plan to improve audits is a focus on peer review and more specifically, enhancing the quality of peer reviewers. As part of this initiative, the PRB, at its May 2015 meeting, approved changes to the existing education framework for peer reviewers in order to increase the qualifications required to perform a review. Additionally, these changes made training for peer reviewers timelier and more comprehensive.

However, there are no peer review specific training courses for technical reviewers or RAB members and none have yet been created. In an effort to increase the qualification of everyone involved in the peer review process, the Peer Review Board as well as the peer review community is being asked to discuss the possibility of requiring training courses specific to technical reviewers and RAB members for every entity administering the program.

See Agenda Item 1.7A for the existing requirements of RAB members and technical reviewers.

See ‘Board Considerations’ below for a series of discussion questions designed to address certain aspects of the potential requirements.

Feedback Received

Peer Review Staff receive periodic feedback about the possibility of creating training courses that could be given to new and existing technical reviewers or RAB members.

This concept has been discussed at high levels in the past, but due to a variety of factors has not progressed past that point.

PRISM Impact

None at this time.

AE Impact

None at this time.

Communications Plan

Any training requirements created as a result of this process will be communicated through various mediums at the time of the approval of the requirements. This includes emails sent directly to existing technical reviewers and RAB members as well as the issuance of Peer Review Alerts and other Reviewer Focus articles.

Manual Production Cycle (estimated)

Not Applicable

Effective Date

Not Applicable

Board Consideration

The Peer Review Board and the Peer Review Community is being asked to consider and discuss the following questions:

-
- 1) Are the existing qualifications for technical reviewers and RAB members outlined in Agenda Item 1.7A sufficient?
 - 2) Should specific training courses be developed and required for technical reviewers and RAB members?
 - 3) If required, how frequent should the training for technical reviewers and RAB members be?
 - 4) Should there be an initial training requirement and an ongoing training requirement?
 - 5) Are there any other questions that should be considered?

CHAPTER 1

Formation, Qualifications, and Responsibilities of The Administering Entity Peer Review Committee and Report Acceptance Bodies

I. Formation

An administering entity appoints a peer review committee to oversee the administration, acceptance, and completion of peer reviews. The committee may decide to delegate a portion of the report acceptance function to report acceptance bodies (RABs), whose members are not required to be, but may be, members of the committee as well (sec. 3100, *Standards for Performing and Reporting on Peer Reviews*, par. .132). It is recommended that the administering entity document its committee and RAB structure and relationship.

The board prohibits the following individuals from serving on a committee or RAB:

- A member of an AICPA ethics committee
- A member of any state board of accountancy or other regulatory agency
- An individual performing enforcement related work for any of the prior mentioned

II. Qualifications of Committee or RAB Members

Members of a committee or a RAB must meet minimum qualification requirements as prescribed in the standards and interpretations.

A. Committee Members

A majority of the peer review committee members and the chairperson charged with the overall responsibility for administering the program at the administering entity should possess the qualifications required of a team captain in a System Review. (See B.4 in the following text.) (Interpretation No. 132-1 of par. .132 in PRP sec. 1000, *Standards for Performing and Reporting on Peer Reviews* [PRP sec. 2000]).

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

B. RAB Members

1. Each member of an administering entity's report acceptance body charged with the responsibility for acceptance of peer reviews should (Interpretation No. 132-1)

- a. be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements (Interpretation No. 132-1a).
- b. be associated with a firm (or all firms, if associated with more than one firm) that has received a report with a peer review rating of *pass* on its most recently accepted System or Engagement Review that was accepted timely, ordinarily within the last three years and six months (Interpretation No. 132-1b).

If a committee member's firm's most recent review was a report review, then the member is not eligible to be charged with the responsibility for acceptance of a peer review (sec. 1000 par. .31c, footnote 7).

- c. if the member is from a firm that is a provider of quality control materials (QCM) or is affiliated with a provider of QCM and is required to have a QCM review under the standards, be associated with a provider firm or affiliated entity that has received a QCM report with a review rating of

pass for its most recent QCM review that was submitted timely, ordinarily within six months of the provider's year-end.

- d. demonstrate proficiency in the standards, interpretations, and guidance of the program by completing training that meets the team captain training requirements established by the board within three years prior to serving on the committee or during the first year of service on the committee.¹ The peer review training and the criteria for demonstrating proficiency in the standards, interpretations, and guidance of the program is established from time to time by the board. Those criteria are located on the Peer Review page of the AICPA website. (Interpretation No. 132-1c).
 - e. at least one member of the RAB considering a peer review that includes (1) engagements performed under *Government Auditing Standards* (GAS, also known as the Yellow Book) including engagements performed subject to OMB Circular A-133 (also known as Single Audits), (2) audits of employee benefit plans conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA), (3) audits of a federally insured depository institution (FDICIA) having total assets of \$500 million or greater at the beginning of its fiscal year, (4) audits of carrying broker-dealers or (5) examinations of service organizations (SOC 1SM and SOC 2SM engagements) must have **current** experience in such engagements or a national RAB consultant with the applicable experience may be utilized.
2. The committee and RABs should have broad industry knowledge in the specialized industries served by firms whose reviews are under consideration. However, it is unnecessary for all committee or RAB members considering such firms' reviews to have knowledge in these specialized industries.
 3. A majority of the RAB members and the chairperson charged with the responsibility for acceptance of System Reviews should possess the qualifications required of a System Review team captain. (Interpretation No. 132-1).

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

In addition to adhering to the general requirements to be a peer reviewer, a System Review team captain must (1) be a partner, (2) complete the initial training requirements for a team captain, and (3) maintain qualifications by participating in eight hours of continuing professional education in peer review training within three years prior to the commencement of a review.

C. National RAB List

A national list of consultants will be maintained by the AICPA, so that the administering entity has an available pool of consultants with GAS, ERISA, FDICIA, carrying broker-dealer, and SOC 1 and SOC 2 engagements experience to call upon in the instance when it does not have an experienced RAB member to consider the review of a firm when circumstances warrant (see the preceding (B)(2)). The national RAB consultant would not necessarily have to physically participate in the RAB meeting (teleconference option). The national RAB consultant will not be eligible to vote on the acceptance of a review. Determination that a review requires a national RAB consultant should be made prior to assigning the review to a RAB. The national RAB consultant would have to meet the following qualifications for RAB participation:

1. Currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active, a consultant should be presently involved in the supervision of one or more of his or her firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements. To be considered a consultant on GAS, ERISA, FDICIA, carrying broker-dealer, or SOC 1 or SOC 2 engagements, the current activity must include the respective industry asked to consult upon.

¹ See Interpretation No. 33-1.

2. Associated with a firm (or all firms, if associated with more than one firm) that has received a report with a peer review rating of *pass* on its most recently accepted System Review that was accepted timely, ordinarily within the last three years and six months.
3. Not associated with an engagement that was deemed not performed in accordance with professional standards on the consultant's firm's most recently accepted System Review.
4. To be considered a consultant on SOC 1 or SOC 2 engagements:
 - a. Possess current knowledge of professional standards applicable to SOC 1 or SOC 2 examinations, including Type 1 and Type 2 reports, qualified and unqualified reports, carve in or carve out engagements, and engagements with and without relevant user entity controls.
 - b. Have at least five years of recent experience in the practice of public accounting with a minimum of 500 hours of SAS 70/SOC 1 or SysTrust/SOC 2 examinations.
 - c. Have provided the administering entity with information that accurately reflects the qualifications of the specialist, which is updated on a timely basis.

III. Responsibilities of the Committee, RAB, and Committee Chair

Overall General Responsibilities of the Committee

The peer review committee has the responsibility to oversee the program administered by its administering entity. That includes, but is not limited to, the following:

- A. Oversee the peer reviews administered and performed in that state or in other states it has agreed to administer.
- B. Establish procedures to ensure consistent application of the standards, interpretations, and other guidance related to overdue reviews, corrective actions, and plans to implement or complete corrective actions. The committee should periodically receive current statistical and other information on these matters from the administering entity staff.
- C. Establish a comprehensive and written oversight program to ensure the program is performed in accordance with standards and guidance issued by the board. Administering entities are required to submit their oversight policies and procedures to the board on an annual basis. In conjunction with the administering entity personnel, the peer review committee establishes oversight policies and procedures that at least meet the minimum requirements established by the board. The *AICPA Peer Review Program Oversight Handbook* contains a detailed discussion of the minimum oversight requirements and the entire oversight process.
- D. Review the adequacy of the back-up plan for key individuals (administrators and technical reviewers) involved in the administration of the program.
- E. Refer instances of noncooperation and disagreements between the committee and peer review teams or reviewed firms to the board. Only the committee will be responsible for determining whether a disagreement exists that cannot be resolved and, as a result, the matter should be referred to the board.
- F. Act upon requests from firms for changes in the timing and year-ends of their reviews.
- G. Appoint persons to serve on committees and task forces as necessary to carry out its functions.
- H. Monitor reviews that should have been performed but have not commenced or been finished, those in process not yet presented to the committee or RAB, and those that have been presented to the committee or RAB that have overdue corrective actions or otherwise where the firm may not be cooperating with the committee.
- I. Monitor the reviewers performing reviews within their jurisdiction. This includes identifying when a reviewer is not fulfilling qualifications and all reviewer responsibilities in the performance of reviews. If the reviewer fails to maintain qualifications or responsibilities, the committee has the duty to determine if corrective actions or restrictions should be placed upon the reviewer.

CHAPTER 2

Technical Reviewer Qualifications and Responsibilities

I. Technical Reviewer Qualifications

A. Technical reviewers must meet minimum qualification requirements (sec. 1000 par. .136).

1. Demonstrate proficiency in the standards, interpretations, and guidance of the program by completing within the 3-year period preceding the commencement of the technical review 1 or more training courses that are applicable to the type of peer review being evaluated and that meet the requirements of the team captain or review captain training requirements established by the board (Interpretation No. 132-1a).
 - The peer review training and the criteria for demonstrating proficiency in the standards, interpretations, and guidance of the program is established from time to time by the board. Those criteria are located on the Peer Review page of the AICPA website.

In order to maintain qualifications of a team captain or review captain, individuals should participate in eight hours of continuing professional education in peer review training within three years prior to the commencement of a review. The team captain or review captain should complete a combination of the peer reviewer training courses approved by the AICPA Peer Review Board which combined totals the eight hour requirement. Training courses that meet such requirements are available on the Peer Review page of the AICPA website.

2. Participate in at least one peer review each year, which may include participation in an on-site oversight of a System Review (Interpretation No. 132-1b). The goal of this requirement is for technical reviewers who do not perform reviews to gain hands-on experience on how peer reviewers and reviewed firms solve practical problems, and to aid in identifying issues while performing technical reviews. Technical reviewer participation should not add any additional cost to the reviewed firm's peer review. The administering entity will decide whether the technical reviewer has met the participation requirements which, at a minimum, should include the following:
 - Review and discuss the planning and scope of the peer review
 - Review the engagement checklists completed by the review team
 - Attend meetings or participate in conference calls between the team captain and reviewed firm to discuss issues encountered during the peer review
 - Attend the exit conference or participate in a pre-exit conference call with the team captain to discuss aggregation and evaluation of matters identified and the type of report to issue

Participation may be off-site as long as the technical reviewer is actively involved in the review. This involvement should include discussion of various planning and scope issues, issues encountered during the review (including discussion regarding the matters, findings, deficiencies, and significant deficiencies noted, as applicable), and the exit conference.

The technical reviewer does not meet the participation requirement by performing a post-issuance review of the report, checklists, or other peer review documentation.

The technical reviewer must participate in a peer review that is equivalent to the highest level of technical review he or she performs.

3. Have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Technical reviewers must obtain a minimum amount of continuing professional education (CPE) in order to maintain the appropriate level of accounting and auditing knowledge (Interpretation No. 132-1c).

If a technical reviewer does not have such knowledge and experience, the technical reviewer may be called upon to justify why he or she should be permitted to perform technical reviews or oversights. The administering entity has the authority to decide whether a technical reviewer's knowledge and experience is sufficient and whether he or she has the capability to perform a particular technical review or oversight whether there are high-risk engagements involved or other factors (Interpretation No. 132-1c).

In order to maintain current knowledge of accounting, auditing, and quality control standards, technical reviewers should obtain at least 40 percent of the AICPA required CPE in subjects relating to accounting, auditing, and quality control. Technical reviewers should obtain at least 8 hours in any 1 year and 48 hours every 3 years in subjects relating to accounting, auditing, and quality control (Interpretation No. 132-1c).

Technical reviewers have the responsibility of documenting compliance with the CPE requirement and should maintain detailed records of CPE completed in the event they are requested to verify compliance. The reporting period will be the same as that maintained for the AICPA (Interpretation No. 132-1c). When the report acceptance body (RAB) has delegated the review of an A-133 engagement(s) to the technical reviewer, he or she must complete eight hours of CPE related to OMB Circular A-133 (Single Audits) every two years.

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

B. Evaluation of Technical Reviewer

The administering entity peer review committee is responsible for evaluating the qualifications and competencies of the technical reviewers on an annual basis. Exhibit 2-1 contains a form that may be used by peer review committees to evaluate the technical reviewer's performance. The form was designed to give technical reviewers positive and constructive feedback.

C. Independence, Confidentiality, and Conflict of Interest

Technical reviewers are subject to the same independence, confidentiality, and conflict of interest rules that apply to committee and report acceptance body (RAB) members. See guidance in chapter 1, sections V and VI.

II. Role of the Technical Reviewer

Technical reviews are required to be performed by the administering entity on all peer reviews (sec. 1000 par. .136).

A. The role of the technical reviewer is to assist the RAB in its report acceptance and oversight functions by performing the following functions (not all inclusive):

- Anticipating the committee's or RAB's questions
- Providing the possible answers to these questions or related recommendations along with all pertinent review documents
- Advising the committee or RAB of significant matters that may not be apparent from the review documents
- Dealing with evident problems before the review is sent to the committee or a RAB
- Recommending corrective actions related to a deficiency or deficiencies in the peer review report or implementation plans related to findings on FFC forms, where appropriate
- Consulting with administering entity staff, peer reviewers, and reviewed firms on matters relative to the review or its results

Oversight Task Force Report

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 21 visits are planned for 2015).
- 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 approve RAB Observation reports
- Review of progress of Enhanced Oversight
- Monitor results of the Enhanced Oversight
- Review referrals from Ethics to Peer Review
- Supervise implementation of new AE monitoring procedures
- 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.

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.

Board Consideration

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

- Focus for 2015 will primarily be on the proposals from the Enhancing Quality Initiative Task Forces.
- Peer Review Quality Control Enhancements
 - The ASB and PRB have been working together to provide firms and peer reviewers the guidance necessary for appropriately establishing, maintaining, and peer reviewing systems of quality control. Some of the topics being discussed include:
 - A more in depth Guidelines for Review of Quality Control Policies and Procedures checklist to assist reviewers in assessing the design of policies and procedures, along with example tests of compliance to determine compliance with SQCS 8. The checklist will provide guidance on identifying risks that a firm's system of quality control will not provide the firm with reasonable assurance that engagements will be performed in conformity with professional standards and when an MFC should be created.
 - Enhanced staff interviews to assist with testing compliance with the firm's policies and procedures.
 - Clarified guidance for determining how risks in the firm's system of quality control impact overall risk assessment, engagement selection, and peer review reporting.
- Other Future Topics:
 - Consideration of enhancing review of systems of quality control and systemic cause identification
 - Consideration of non-AICPA firm enrollment in the Peer Review Program.
 - Consideration of guidance for selecting engagements outside of the peer review year.
 - Consideration of additional guidance for the review of quality control materials.
 - Consideration of engagement selection criteria for Engagement Reviews.
 - Removing industries from the Engagement Summary Form.
 - Clarification of the guidance for determining nonconforming engagements in an Engagement Review.
 - Clarification of the representation letter guidance.
 - Develop guidance addressing firms operating under more than one name or legal entity (e.g. when is it appropriate that only one peer review occurs vs. when there should be separate peer reviews, reporting considerations, etc.).
 - 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.

-
- 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, 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.
 - Consideration of whether past history of firms and reviewers should be part of the reviewer process.
 - Consideration of whether surprise engagements are necessary in an electronic working paper environment.
 - Consideration of subsequent events and the impact on the peer review.

Update on Education and Communications Task Force

Why is this on the Agenda?

The ECTF is responsible for overseeing the development of guidance and training materials for administrative personnel, technical reviewers, peer reviewers and committee members. Recently the ECTF has finalized the materials for the 2015 Conference, assisted with the development of the new reviewer education requirement and reviewed the proposed content for a selection of courses that will meet the reviewer education requirement. The task force will provide the following 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.

Board Consideration

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

- Conference
 - Assess feedback received from the 2015 AICPA Peer Review Program conference and begin planning for the 2016 conference.
- Training Materials and Programs
 - Determine the need to develop additional training materials and learning opportunities specifically for individual groups (administrators, technical reviewers, committee members, and reviewers).
 - Discuss the wraparound guidance related to the new training requirements for both new and existing peer reviewers. This includes, but is not limited to:
 - Potentially offering sessions at pre-existing Conferences (e.g. NAAATS)
 - Developing the ramifications of failing to take a required course
 - Discussing alternative timeframes for required courses (e.g. extend to 18 months or have a structure similar to State Board licensing requirements, in other words, take CPE in year one to be eligible to perform reviews in year two)
 - Developing the process for submitting alternative courses to meet the must training requirement for certain must select industries
 - Developing an FAQ document related to the new education framework to provide additional guidance and clarity into how the framework will work.
 - Assessing the content of future versions of the required courses
 - Approve instructors for the live seminar peer review training courses.
- Communications
 - Review and approve any required additional communications to administrators, technical reviewers, committee members, and reviewers
 - Communicate changes to pertinent groups regarding changes adopted by the Peer Review Board or other task forces

Update on National Peer Review Committee

Why is this on the Agenda?

The National Peer Review Committee will provide this information to the Board at each open session meeting as it is considered a senior task force of the Peer Review Board. This update serves as an FYI.

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

- Full NPRC Meeting - May 12, 2015 - conference call
 - During this call, the NPRC accepted one QCM review.

- Future Meeting Dates and Locations
 - October 22, 2015 conference call
 - December 8, 2015 meeting in DC – 3 large firm review will be presented at this meeting.
 - February 2, 2016 conference call

- RAB calls/monitoring—
 - Since the last update in May, the NPRC held four RAB calls. During those calls, 30 reviews were presented – 27 pass, 3 pass with deficiencies and 0 fail.

Agenda Item 1.11E

**Firms Dropped from the AICPA Peer Review Program for Non-Cooperation between
May 6, 2015, and July 10, 2015, and Not Enrolled as of July 10, 2015.**

Firm Number	Firm Name	State	Admin By
10080214	Daugherty & Lowe	AR	AR
10097162	George Cossolias & Company	CA	CA
10129688	Bartolme And Associates, Inc. A Professional Accountancy Corporation	CA	CA
10134747	William A. Goldberg CPA, P. C.	CA	CA
10142989	Thomson & Company CPA's & Business Advisors, P.C.	CA	CA
4567563	Kevin A. Lawrence an Accountancy Corp.	CA	CA
3746114	M & A Accounting Solutions, Inc.	CA	CA
5460244	Tarvaran, Askelson & Company LLP	CA	NPRC
10045017	Marincovich & Company, A. C.	CA	CA
10050294	Muller, King, Mathys, Acker & Lopez, A. C.	CA	CA
3835886	Conn & Sharp, P.A.	FL	FL
5644697	SunCoast CPA Group, PLLC	FL	FL
5234203	Barzana & Associates, P.A.	FL	FL
10154544	Page, Woolley & Company, P.A.	FL	FL
3669578	Yeend, Gibson, Flynn & Co., CPA, PA	FL	FL
4779846	Michael L. Holtzapple, CPA PA	FL	FL
4912871	Auditwerx	FL	FL
10121187	West & Associates, P. C.	GA	GA
10137483	Byrd & Baker, LLC	GA	GA
5636803	Goodman Professional Accounting Services, LLC	GA	GA
10018928	Gerald P. Eidelman	MA	MA
10030769	Herman & Herman	MA	MA
3826533	Sansom & Sansom	MA	MA
1185876	Charles H. Kilty	MA	MA
5565284	RS Accounting & Tax Services PLC	MI	MI
10145633	Hopke & Associates, LLC	MO	MO
10152970	Hathcock & Co PC	MO	MO
5439364	Ron L. Hobbs, CPA	MO	MO
5743554	Schreiber Wealth Mangagement	MO	MO
1088801	Robert B. McCarthy, CPA, PLLC	NH	NH
4184179	William Trochiano, CPA	NJ	NJ
10154584	Hemmendinger and Company, LLC	NJ	NJ
7930247	John Scrudato CPA	NJ	NPRC
10056747	Urmston Forshee Plain & Amelio CPAs PLLC	NY	NY
10117938	Wheeler, Wottitz & Pagan CPA P.C.	NY	NY
3812448	Penta & Company, P.C.	NY	NY

Firm Number	Firm Name	State	Admin By
10056747	Urmston Forshee Plain & Amelio CPAs PLLC	NY	NY
10095925	Gomer Williams Jr. and Paul A. Williams, CPAs, Inc.	OH	OH
1105170	Roy K. Chan Corporation	OH	OH
10145592	G. Michael Brown & Associates, Inc.	OH	OH
10148953	Mayor CPA Group LLC	OH	OH
10149071	Daniel D Huron	OH	OH
10155385	David W Hagstrom	PA	PA
5624339	Cordero CPA & Co PSC	PR	PR
7400172	Francisco J. Feliciano Valiente, CPA	PR	PR
1021250	James Hollis Derrick, CPA, PC	SC	SC
3834788	The Hultquist Firm, CPA, P. C.	SC	SC
5530577	Moss & Lewis CPAs	SC	SC
5798363	Rayne B. Adams CPA PA	SC	SC
10091590	Martin Smith & Company	SC	SC
10134579	Bean CPA Firm	TN	TN

Firms Whose Enrollment Was Terminated from the AICPA Peer Review Program

Costin, Hammel & Leake, LLC – Orland Park, IL
George William Klein – Chadron, NE
J. Harding & Company, PLLC – Plymouth, NH
S. B. Mukherjee – Yorktown Heights, NY
Vondercrone and Behrens – Nazareth, PA

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 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 1.11F-1.

Feedback Received

N/A

PRISM Impact

N/A

AE Impact

N/A

Communications Plan

The update to the webpage was communicated in the July Reviewer Alert.

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 3/31/14 and 6/30/15¹**

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

- Failure to conform the auditor's report to the clarified auditing standards requirements
- Failure to date the auditor's report appropriately, such as dating the report 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
 - Understanding of IT environment
 - Internal control testing
- Failure to appropriately address fraud considerations

¹ 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, 2014 to December 31, 2014 its peer review is not due until June 30, 2015. Therefore a January 31, 2014 year end audit would not be included in the MFC data until approximately June 30, 2015. However, a December 31, 2014 year end audit in the same scenario would be included in the MFC data around June 30, 2015 as well. Refer to 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 most recently accepted peer reviews, generally within the last 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.

- Failure to obtain appropriate management representation letters. Matters included failure to:
 - Update the letter in conformity with the clarified auditing standards requirements
 - Date the letter appropriately
 - Include appropriate financial statement periods
 - Include required representations
- Failure to communicate and/or document required communications with those charged with governance
- Failure to include audit documentation that contains sufficient competent evidence to support the firm's opinion on the financial statements
- Failure to address the reason(s) accounts receivable were not confirmed
- Failure to adequately document sampling methodology
- Failure to document consideration of the group audit standard when a component unit was audited by another auditor
- Failure to appropriately report on supplemental information such as:
 - Not identifying all supplemental information presented
 - Use of outdated language

Accounting and Review Services

Compilations

- Failure to prepare reports in accordance with professional standards. The following matters were noted:
 - Not updated for SSARS 19
 - No headings on the report
 - Inappropriate titles or lack of a title
 - 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 include a reference to the accountant's report on each page of the financials
- Failure to obtain an engagement letter or failure to contain all elements (e.g. objectives of the engagements) required by SSARSs.
 - 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 engagement performed in accordance with a special purpose framework.
- Failure to appropriately label select disclosures as "Selected Information – Substantially All Disclosures Required by [Applicable Financial Reporting Framework] Are Not Included"

Reviews

- Failure to obtain appropriate management representation letters. Matters included failure to:
 - include all representations required by the applicable professional standards
 - Date the letter appropriately
 - Include appropriate financial statement periods
- Failure to update reports in conformity with the applicable professional standards or to include inappropriate titles
- Failure to obtain an engagement letter or failure to have all the required elements within the engagement letter

- Failure to report the degree of responsibility taken with respect to supplementary information presented in the financial statements
- Failure to document expectations or the comparison of expectations to recorded amounts for analytical procedures

General SSARS

- Failure to cover all of the periods or the correct periods presented in the financial statements in the accountant's report

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.)

- Failure to include the following in an AUP report:
 - A title
 - The word "Independent" in the 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
- Failure to provide sufficient documentation to understand the nature, timing, extent and results of the attest procedures performed as well as who performed and reviewed the work

Code of Professional Conduct

- Failure to establish and document in writing the understanding with the client with regard to non-attest services provided
- Failure to address management's responsibilities to oversee and evaluate the results of the services performed
- Failure to collect fees for professional services provided more than one year prior to the date of the current report

Statements on Quality Control

- Leadership Responsibilities for Quality within the Firm
 - Failure to have a written quality control document in accordance with SQCS 8
 - Failure to communicate quality control policies and procedures with staff
 - Failure to devote sufficient resources for the support of its quality control policies and procedures
- Relevant Ethical Requirements
 - Failure to obtain written confirmation on independence for all personnel
- Acceptance & Continuance
 - Failure to obtain a license in all states where engagements were accepted
 - Failure to evaluate the risk of performing an engagement in a specialized industry and/or to obtain the necessary knowledge of current standards in specialized areas prior to performance of the audit.
- Human Resources
 - Failure to design policies that ensure partners and staff obtain appropriate CPE to meet state board requirements, membership requirements, etc.

- Failure to design polices to require relevant CPE for levels of service and industries of engagements performed
- Failure to maintain current licenses within all jurisdictions the firm practices
- Engagement Performance
 - Failure to establish appropriate criteria for Engagement Quality Control Review (EQCR)
 - Failure to perform EQCR on engagements that meet the firm’s criteria
 - Failure to maintain current quality control materials for the performance of engagements
 - Failure to establish a policy for the retention of engagement documentation
- Monitoring
 - Failure to design appropriate policies and procedures for the completion of monitoring
 - Failure to include all elements of quality control in monitoring procedures
 - Failure to document the results of monitoring and inspections

FASB Accounting Standards Codification

- Failure to disclose the date through which subsequent events were evaluated
- Failure to correctly classify cash flows, present gross amounts instead of net, and identify non-cash transactions on the cash flow statements
- Failure to appropriately disclose related-party transactions, debt maturation schedules and significant estimates
- Failure to appropriately disclose fair value hierarchy of investments, description of the levels, description of the assumption methods used and tabular presentation of amounts
- Failure to perform sufficient procedures or sufficiently document 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 or incorrect 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
- Failure to follow the Uniform Reporting Standards and current reporting format for HUD financial statements in accordance with the HUD Consolidated Audit Guide

- Failure to prepare an engagement letter or issue an agreed upon procedures report related to REAC submissions
- Failure to properly and consistently report the results of the single audit between the auditor's reports, the Schedule of Findings and Questioned Costs, and the Data Collection Form, including major program determination and threshold, low-risk auditee status, and evaluation of findings.

Disclosure and Presentation

- Failure to present the financial statements in accordance with professional standards including Fund Balance and Net Position presentation and reconciliations, presentation of funds, missing significant policy footnotes, missing disclosures related to fair value, debt, impairment of fixed assets and improper financial statement titles
- Failure to properly implement GASB 65, properly present deferred inflows and outflows, or modify accountant's report for failure to write off unamortized bond issuance cost
- Failure to use proper terminology required by GASB standards including net position, classifications of fund balance, and deferred inflows/outflows
- Failure to include the REAC financial data templates as supplemental information as required by HUD

Documentation and Performance

- Failure to properly document independence considerations required by Yellow Book including the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor, evaluation of significant 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 CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the auditee operates
- Failure to document required communications with those charged with governance, including proper communication of internal control findings
- 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. Also improper consideration of the date of the representations in relation to the audit report
- 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, failure to properly perform Type A and Type B program risk assessments, failure to group programs with the same CFDA number, and incorrect determination of the auditee as low-risk resulting in insufficient coverage
- SINGLE AUDIT: Failure to properly conclude and document either that an applicable compliance requirement does not apply to the particular auditee or that noncompliance with the requirements could not have a direct and material effect on a major program
- 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 applicable 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 applicable compliance requirement with a direct and material effect for the major program, including insufficient documentation and usage of dual-purpose testing.
- SINGLE AUDIT: Failure to document internal controls over the preparation of the Schedule of Federal Awards (SEFA).

ERISA

- Failure to sufficiently perform participant testing related to demographic data and payroll
- Failure to sufficiently perform and document reliance on SOC 1 reports
- Failure to sufficiently perform procedures related to benefit and claims payment testing including evaluating participant's eligibility, examining approvals and recalculation of benefit or claims amounts
- Failure to report significant plan information, such as related party (party in interest) transactions and prohibited transactions between a plan and a party in interest
- Failure to obtain an understanding of the actuary's objectives, scope of work, methods and assumptions, and consistency of application on defined benefit plans
- Failure to present a complete Schedule of Assets (Held at End of Year)

Broker-Dealers

- Failure to comply with SEC Independence Rules, including not preparing financial statements for clients
- Failure to perform sufficient revenue testing by placing too much reliance on a SOC 1 report
- Failure to make or document the required communications with the audit committee (or board)
- Failure to obtain a concurring review as required by PCAOB Standards

Service Organization Control (SOC) Reports

- Failure to obtain the experience and training required under SSAE 16 to properly complete a Service Organization Control Report
- Failure to include required elements in the report such as:
 - Management assertions
 - Complementary user entity controls
 - Carve outs
 - Criteria for the principles being opined on
 - Management responsibilities
 - Inclusion of all controls in control activity section
- Failure to have sufficient working paper support for information included in the report, such as lack of or poor documentation of:
 - Procedures to assess the nature, timing, and extent of the procedures (specifically sampling methodology)
 - Procedures to test carve outs
 - Procedures to support the Other Information included in the report
 - Procedures to assess the suitability criteria to evaluate whether management's description of the service organization's system is fairly presented
- Failure to sufficient test controls, including:
 - Failure to address the elements of the control, all IT general controls and change management controls

- Failure to document which controls at the service organization were necessary to achieve the control objectives stated in management's description of the service organization's system and assess whether those controls were suitably designed to achieve the control objectives
- Failure to update engagement letter for changes in the audit guide
- Failure to document how sample sizes were selected
- Failure to coordinate the use of inquiry with other procedures
- Failure to ensure that the assertions provided by management were sufficient in detail

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:
 - Loans by type, delinquencies by type, and other segmentation information of the loan portfolio
 - The policy for recognizing interest income on impaired loans, including how cash receipts are recorded
 - Valuation allowances, changes in allowances, and related segmentation information, and the allowance account methodology
 - Credit quality disclosures related to loans receivable
 - 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
 - Loan servicing fees including the amount of contractual fees and assumptions used to estimate the fair value of the fees
- Failure to perform sufficient 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
- Failure to perform sufficient audit testing of certain subjective, qualitative components of the allowance for loan loss, and retrospective review of the allowance for loan loss for bias
- Failure to obtain a management representation letter with representations specific to financial institutions
- Failure to adequately document testing of member shares and loans receivable, including confirmations and compliance with FASB ASC 310-20

PCAOB

- Failure to also perform and report under U.S. GAAS when an audit is performed under PCAOB standards for a non-SEC issuer not under the PCAOB's jurisdiction

Not for profit

- Failure to properly classify net assets as unrestricted, temporarily restricted and permanently restricted
- Failure to adequately disclose the nature, amounts and types of net asset restrictions
- Failure to disclose policies regarding donated goods and services

-
- Failure to refer to the Statement of Functional Expenses in the report
 - Failure to properly expense classifications on the Statement of Functional Expenses



Peer Review Program