

# Peer Review Board Open Session Materials

**May 3, 2016**

**Durham, NC**

**AICPA Peer Review Board  
Open Session Agenda  
May 3, 2016  
Durham, NC**

**Date/Time:** Tuesday May 3, 2016 10:00 AM – 3:00 PM (Eastern Time)

**Meeting Location:** AICPA Office in Durham, NC

- 1.1 Welcome Attendees and Roll Call of Board\*\* – Mr. Kindem/Ms. Ford
- 1.2 Approval of Improving Transparency and Effectiveness of Peer Review Exposure Draft Guidance Changes\* - Mr. Parry
  - A. Summary of Comments Received
  - B. Final Proposed Standards and Interpretations
  - C. Conforming Changes
  - D. Confidentiality of the Program
  - E. Forms for Evaluating QC Systems
- 1.3 Approval of Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program Exposure Draft\* - Mr. Parry
- 1.4 Approval of Revisions to Forms Related to SEC Independence Requirements\* - Mr. Parry
- 1.5 Approval of Revisions to the Document Retention Guidance\*\*\* - Mr. Parry
- 1.6 Approval of Revisions to the Reviewer Performance Guidance\*\*\* - Mr. Parry
- 1.7 Approval of Revisions to Training Requirements\*- Ms. Kerber
- 1.8 Task Force Updates\*
  - A. Standards Task Force Report – Mr. Parry
  - B. Education and Communication Task Force Report – Ms. Kerber
  - C. Oversight Task Force Report – Ms. Seefeld
- 1.9 Federal Audit Clearinghouse Completeness Update\* – Ms. Montague
- 1.10 Operations Director’s Report\*\* – Ms. Thoresen
- 1.11 Report from State CPA Society CEOs\*\* – Mr. Shapiro
- 1.12 Update on National Peer Review Committee\*\* – Mr. Fawley
- 1.13 Update on the Peer Review Program Manual\* - Ms. McClintock
- 1.14 For Informational Purposes:
  - A. Report on Firms Whose Enrollment was Dropped or Terminated\*
- 1.15 Future Open Session Meetings\*\*
  - A. August 11, 2016 Open/closed sessions (AM) – San Diego, CA
  - B. September 26-27, 2016 Open/closed sessions – Conference call
  - C. January 31, 2017 Open/closed sessions – Naples, FL
  - D. May 12, 2017 Open/closed sessions – Durham, NC
  - E. August 17, 2017 Open/closed sessions – Nashville, TN

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\*- Document Provided

\*\*-Verbal Discussion

\*\*\*-Will be provided at a later date

**Approval of Improving Transparency and Effectiveness  
of Peer Review Exposure Draft Guidance Changes**

**Why is this on the Agenda?**

The [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#) was issued on November 10, 2015. The STF has considered the comments received and incorporated changes as appropriate. Refer to Agenda Item 1.2A for a summary of the comments received on the transparency exposure draft. The full comments can be found [here](#).

The goal for the May PRB meeting is to approve the final proposed Standards, Interpretations, and conforming changes. The materials include:

**Agenda Items 1.2B and 1.2C – Final Proposed Standards and Interpretations and Related Conforming Changes**

The STF is proposing for these to be approved effective for reviews commencing January 1, 2017 or later.

**Agenda Item 1.2D – Confidentiality of the Program**

The STF is proposing for these Standards, Interpretations, and RAB Handbook changes to be effective immediately upon approval by the PRB in May 2016.

**Agenda Item 1.2E – Forms for Evaluating QC Systems**

The STF is proposing for the new Guidelines for Review and Testing of Quality Control Policies and Procedures to be effective for reviews commencing January 1, 2017 or later with early implementation permitted.

*NOTE – The Peer Review Board materials are being sent prior to approval of these guidelines by the STF. Therefore, the final May PRB materials may not include Agenda Item 1.2E.*

**Feedback Received**

Refer to Agenda Item 1.2A for a summary of the comments received on the transparency exposure draft. The full comments can be found [here](#). Additional feedback was received from AATF and TRATF.

**PRISM Impact**

Changes to the corrective actions will require minor changes in PRISM.

**AE Impact**

The most significant changes are those made to the RAB Handbook. Changes will also be made to the administrative checklist to ensure the Summary of No Answers for the revised guidelines checklist is received with the working papers.

**Communications Plan**

An extensive communications and training plan will be necessary during 2016 to prepare firms and reviewers for reviews commencing 1/1/17 or later. The ECTF will discuss the training plans. Communications will be made throughout the year reminding firms that they can no longer use the peer review questionnaire as their QCD and reminding reviewers of the changes to guidance.

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**Manual Production Cycle (estimated)**

The changes for standards paragraphs .133 and .146 and the related interpretations and RAB Handbooks will be included in the May OPL update. The rest will be included in the January 2017 update.

**Effective Date**

The changes for standards paragraphs .133 and .146 and the related interpretations and RAB Handbooks will be effective upon approval in May 2016. The rest will be effective for reviews commencing January 1, 2017 or later.

**Board Consideration**

Discuss and approve Agenda Items 1.2B, 1.2C, 1.2D, and 1.2E.



**Summary of Comments Received**

This agenda item includes a summary of the comment letters received on the [Improving Transparency and Effectiveness of Peer Review Exposure Draft](http://www.aicpa.org/Research/ExposureDrafts/PeerReview/DownloadableDocuments/Improve_Transparency_Effectiveness_CmtLtrs.pdf). The full comment letters can be found at: [http://www.aicpa.org/Research/ExposureDrafts/PeerReview/DownloadableDocuments/Improve Transparency Effectiveness CmtLtrs.pdf](http://www.aicpa.org/Research/ExposureDrafts/PeerReview/DownloadableDocuments/Improve_Transparency_Effectiveness_CmtLtrs.pdf)

Respondent	Comments
David W. Elks, CPA Keystone Accounting Solutions, LLC Reviewed Firm (Sole Practitioner)	<ul style="list-style-type: none"> <li>• Agrees with most of the changes as proposed</li> <li>• Agrees with need for separate closing meetings and exit conference</li> <li>• Believes the reviewer’s recommendation should remain on the FFC as it is an integral part of the process and eliminating it would reduce the effectiveness of the review.</li> </ul>
R. Joe Savage, CPA Tennessee CPA Society Peer Review Committee	<ul style="list-style-type: none"> <li>• Agrees with the changes as proposed</li> </ul>
Joe Larsen, CPA Reviewed Firm (Sole Practitioner)	<ul style="list-style-type: none"> <li>• Indicated he likes the peer review process as is and requests the board does not make any changes</li> </ul>
David A. Feldman, CPA Peer Reviewer	<ul style="list-style-type: none"> <li>• In his experience with Engagement Reviews, firms will not be able to provide an appropriate recommendation to remediate any findings or deficiencies without his input</li> </ul>
Donald H. Burkett, CPA Ken L. Bishop NASBA	<ul style="list-style-type: none"> <li>• Agrees with most of the changes as proposed</li> <li>• Recommendations were provided for several areas</li> </ul>

<b>Respondent</b>	<b>Comments</b>
<p>Joseph C. King, CPA</p> <p>Peer Reviewer PRC Member</p>	<ul style="list-style-type: none"> <li>• Agrees with a separate closing meeting and exit conference</li> <li>• Requested clarification for whether MFC and FFC forms should be completed onsite prior to the closing meeting and does not believe that should be a requirement</li> <li>• Believes the standards and interpretations should be more flexible regarding extensions when the 6 month due date cannot be met</li> </ul>
<p>Dave Sullivan, CPA William Calder, CPA</p> <p>Deloitte &amp; Touche</p>	<ul style="list-style-type: none"> <li>• Agrees with the changes as proposed</li> </ul>
<p>Dan Hevia, CPA</p> <p>Gregory, Sharer &amp; Stuart, CPAs</p> <p>Peer Reviewer</p>	<ul style="list-style-type: none"> <li>• Believes the current reporting model meets the requirements of most users and no significant benefit would be gained by changing the reporting model as proposed. Urges the PRB not to contribute to “standards fatigue”</li> <li>• Believes firms with less complex A&amp;A practices will have significant difficulty developing appropriate responses in language acceptable to the PRB without assistance of the reviewer and therefore may lead to a lot of back and forth with drafting of responses.</li> <li>• Believes requiring reviewers to review the firm’s LOR prior to submission of documents to the AE will result in significant delays and requiring a reviewer to go back and look at peer review documents that were compiled a month earlier will increase peer review time and cost.</li> <li>• Supports additional guidance for communication of conclusions, however, he believes the timing and method of communication should be left to the reviewer’s discretion.</li> <li>• Supports expanding scope outside of the peer review year for compliance testing but concerned about overburdening small firms and recommends clarifying when scope would be expanded.</li> </ul>
<p>Robert Beam, CPA</p> <p>Texas Society of CPAs Peer Review Committee</p>	<ul style="list-style-type: none"> <li>• Believes requiring a representation that firms will remediate nonconforming engagements as stated on its MFC, FFC, or LOR does not provide additional strength to the process and instead will place pressure on the reviewer to complete the review when the firm may not have determined appropriate remediation as of the exit conference date.</li> <li>• Agrees with adding a requirement for prior FFC forms to be reviewed during planning but believes that is also already being performed. However, requiring assessment of all responses from the prior review and whether the firm implemented them or not adds additional unnecessary time to the review as reviewers are already expected to assess whether current year findings and deficiencies are repeats.</li> <li>• Agrees with the removal of the QC P&amp;P Questionnaires</li> <li>• Does not believe the benefit gained from reviewing evidential material outside of the peer review year to perform compliance tests will outweigh the additional time required to do so. There are other</li> </ul>

Respondent	Comments
	<p>areas than acceptance and completeness that may not have been evident in the review period. Further, the reporting model may need changed as it opines on a specific amount of time.</p> <ul style="list-style-type: none"> <li>• Believes requiring a closing meeting and an exit conference will make it harder for a reviewer to finish the review and recommend removal of the closing meeting.</li> <li>• Believes pass reports should not make reference to nonconforming engagements as it may confuse the reader as to why the firm did not receive a pass with deficiencies or fail report. Pwd and fail reports should drop, “if any”.</li> <li>• No comments regarding the proposed changes to the communications to third parties regarding a firm’s peer review status.</li> </ul>
<p>Joseph M. Falbo, JR.  New York State Society of CPAs Peer Review Committee</p>	<ul style="list-style-type: none"> <li>• The time and effort required to remediate nonconforming engagements is frequently substantial and can have a detrimental effect on client relationships. Evaluation of whether a firm’s failure to recall and reissue reports is indicative of a leadership deficiency may be an instruction to reviewers as using the peer review reporting process in a manner that interferes with the reviewed firm’s relationship with the subject client. Further, regulators do not limit remediation to the current reporting period.</li> <li>• Guidance should be provided for the peer reviewer on how to document the decision to not require remediation for the current engagement or prior years’ engagements. Interpretation 67-1 should be amended to use the word “must” so that the firm is required to document its reasoning in a signed statement issued on the firm’s letterhead and become a required document to be submitted to the administering entity as part of the document package for the review.</li> <li>• Believes allowing reviewers to test compliance outside of the peer review year would create a number of technical issues. Under SQCS, acceptance and continuance policies and procedures apply to both new clients and existing clients and therefore some comfort can be gained from testing the existing client. In addition there would be reporting implications and it is unclear whether the reviewer should select one or more new engagements in the prior periods for review. Further, testing engagements outside of the peer review year is different than testing other QC elements. The audit, accounting and independence issues present in must select engagements can’t be tested without reverting to the prior 12 month period engagement if a peer review period engagement is not available to the reviewer. Accordingly, they believe the exception for must select engagements is not a precedent for promulgating a similar exception for the client continuance element of quality control.</li> <li>• Suggests Standards require a single comprehensive quality control document for all firms. At present Standards requires only “documentation of the quality control system” as opposed to mandating a “quality control document.”</li> </ul>

Respondent	Comments
	<ul style="list-style-type: none"> <li>• Believes repealing the provision for reviewer recommendations will not substantively change the dynamic between the reviewed firm and the review captain as most firms with small, non-complex accounting and auditing practices are unable to develop an action plan without a significant contribution from the review captain. The principal effect of the change would, therefore, be to diminish the value of the peer review in the eyes of the reviewed firm and perhaps result in disagreements between the firm and reviewer given the transfer of responsibility and possible inference by the reviewed firm that it is equally qualified as its reviewer to assess the underlying causes and make practical and effective recommendations.</li> <li>• Believes the PRB should reconsider the efficacy of a closing meeting and an exit conference and suggests the closing meeting be optional and it will likely only be appropriate for firms with larger and more complex practices.</li> </ul>
<p>Lori Riiska, CPA</p> <p>Connecticut Society of CPAs Peer Review Committee</p>	<ul style="list-style-type: none"> <li>• Agrees that more responsibility should be placed on firms to address nonconforming engagements</li> <li>• Expressed concerns regarding the ability of firms to be able to provide information from prior years. Researching archived information would create more time and inefficiencies.</li> <li>• Emphasis on the firm's responsibility and responsiveness to address remediation of the findings, deficiencies and significant deficiencies is key. There should be enhanced guidance and education to the firms about the importance of their responses and peer review overall.</li> </ul>
<p>RubinBrown LLP</p>	<ul style="list-style-type: none"> <li>• Agrees with the changes as proposed</li> </ul>
<p>Kathy Redgate, CPA</p> <p>GSCPA Peer Review Executive Committee</p>	<ul style="list-style-type: none"> <li>• Agrees with the changes as proposed but would like clarification on the proposed changes to the firm representation letter regarding referral of firms dropped for misrepresentation to the appropriate regulatory, monitoring and enforcement bodies</li> </ul>
<p>Michael Westervelt</p> <p>PCPS Technical Issues Committee</p>	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Believes firms may have reservations about the expansion of scope clarifications that could potentially result in a finding or deficiency as extant standards only require scope expansion if a potential significant deficiency was detected. TIC agrees the expansion is necessary though.</li> <li>• Believes that expansion of scope may result in extension of overall peer review timelines. Additional language should be added to Interpretation 133a-1 to emphasize the circumstances are exceptions and should not be seen as the norm and that every effort should be made to reduce delays in the timely issuance of peer review reports. Recommends adding "an unanticipated expansion of scope" as an additional bullet in the list of circumstances that can cause unavoidable delays in the timely acceptance of a peer review.</li> <li>• Believes the guidance removed from paragraph .79 regarding QC issues normally not being elevated higher than a finding in the absence of findings in engagements should be added back with</li> </ul>

Respondent	Comments
	<p>an additional statement that even though this is the typical conclusion, the reviewer should consider the entity's system of quality control.</p> <ul style="list-style-type: none"> <li>• Believes that paragraph .98 and Interpretation 99-1 are unclear on whether the MFC form may continue to include reviewer recommendations recommends clarification that recommendations may continue to be part of the MFC.</li> <li>• Believes "if the firm is going through fair procedures to determine whether it is cooperating with peer review" should be an item that the AICPA or AE would not provide to a third party as TIC believes considers the evaluation of fair procedures to be subjective in nature.</li> </ul>
Grant Thornton LLP	<ul style="list-style-type: none"> <li>• Agrees with most of the changes as proposed</li> <li>• Suggests the title prior to paragraph .91 "Communicating Conclusions at the Closing Meeting and Exit Conference" would be better worded as "Communication Requirements for Closing Meeting and Exit Conference" as several of the items listed in this section are not conclusions but rather items to be completed or considered.</li> <li>• Suggests changes Interpretation 99-1 from "the team or review captain 'should' collaborate" to 'may' collaborate as should has a mandatorily presumptive meaning.</li> <li>• Suggests clarification to Interpretation 146-3 regarding the AICPA and AE ability to communicate with third parties regarding fair procedures and noncooperation.</li> </ul>
Charles J. Naber, CPA Indiana CPA Society PRC	<ul style="list-style-type: none"> <li>• Agrees with most of the changes as proposed</li> <li>• Recommendations were provided for several areas</li> </ul>
James R. Dalkin U.S. Government Accountability Office	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Believes the changes may not resolve the inconsistency in the quality of peer reviews performed and suggested the AICPA consider whether a process that goes beyond the current requirements is necessary for determining who is competent to lead or participate in a peer review team.</li> </ul>
D. Dean Beddow, CPA Margaret Gallagher, CPA  New Jersey Society of CPAs Peer Review Executive Committee	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Recommends clarifying the timing and location for closing meetings as there are inconsistencies within the ED about the meeting.</li> <li>• Suggests revising the title prior to paragraph .91 "Communicating Conclusions at the Closing Meeting and Exit Conference" to "Communication Requirements for Status Meeting and Exit Conference" as the substance of these paragraphs are requirements for matters to be completed/considered and the status about the matters identified as Paragraph 91(a) indicates these are "preliminary peer review results".</li> <li>• Suggests clarification to paragraphs .73 and .75. Revised paragraph .75 stipulates the team captain and reviewed firm should collaborate in identifying the systemic cause for matters identified; conversely, paragraph .73 and the last sentence of .75 indicates there may be situations where it is</li> </ul>

Respondent	Comments
	<p>not practical to identify the systemic cause. Our suggestion would be to revise Paragraph .73 and .75 by removing, “if known” and the last sentence of .75 as the team captain and firm should identify systemic causes for all matters to improve the firm’s system of quality control and to improve audit quality.</p> <ul style="list-style-type: none"> <li>• Suggests changing “should” to “may” in Interpretation 99-1 to remove the mandatorily presumptive meaning of instructing firms to complete appropriate remediation and remain consistent with Interpretation 67-2 regarding not instructing firms to perform certain types of remediation.</li> <li>• Recommends clarification of information about a peer review that can be disclosed to a third party. Interpretation 146-3 appears to contain conflicting guidance relating to whether the administrating entity or AICPA may disclose when a reviewed firm is “going through fair procedures to determine whether it is cooperating with the peer review”. The first section permits the disclosing of such information as stated in the last bullet point; whereas, the next section strictly prohibits the disclosing of “whether the firm is cooperating with the AICPA or administering entity”.</li> </ul>
KPMG LLP	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Believes the requirement for team captains to identify the systemic cause is inconsistent with SQCS and may impair the objectivity and independence of the peer reviewer. Further, the inability of a reviewed firm to determine the systemic cause of a matter may be indicative of an additional deficiency in such firm’s system of QC. The TC should evaluate the reasonableness of the firm’s determination of systemic cause. Firms with less sophisticated systems of QC may need to collaborate with the TC but such involvement by the TC should not be a substitute for the reviewed firm’s own process.</li> <li>• Believes the firm representation regarding communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations should be revised to address summaries of communications.</li> <li>• Recommendations were provided for several other areas</li> </ul>
Baker Tilly Virchow Krause, LLP	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Encourages the PRB to explore additional changes to the peer review report to better meet report users’ needs and to give additional consideration to feedback received from the EAQ initiative and to seek additional stakeholder feedback as a basis to further study the extent to which more transformative changes may be needed to achieve the objectives of greater transparency and usefulness of peer review reports.</li> <li>• The changes to the Guidelines for Review of QC P&amp;P checklist will cause many firms to supplement or rewrite their quality control documents and related policies and procedures and to make changes in their quality control practices. An effective date of January 1, 2017 does not provide sufficient</li> </ul>

Respondent	Comments
	<p>time for this to occur and therefore they recommend an effective date of no earlier than January 1, 2018.</p> <ul style="list-style-type: none"> <li>• Paragraph 9 of Appendix A is a duplicate of paragraph 8</li> <li>• Believes the second sentence of the third paragraphs appearing in a) the Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review and b) the Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Review Captain for an Engagement Review on pages 66 - 68 of the Exposure Draft should be deleted as it is not applicable for a firm who is eligible to have an engagement review. We also recommend that the third and fourth sentences of the same paragraph should be placed at the end of the same paragraph.</li> </ul>
<p>Froment John Gonzalez, CPA</p> <p>Florida Institute of CPAs Peer Review Acceptance Committee</p>	<ul style="list-style-type: none"> <li>• Agrees with the changes as proposed</li> </ul>
<p>Stefeni Freese James Woy</p> <p>Montana Society of CPAs Peer Review Committee</p>	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Does not believe the FFC should include the scenario leading up to the finding as it will not affect or enhance the underlying finding and will result in numerous technical reviewer comments that may delay the acceptance of the review. The additional documentation serves little or no purpose since the reviewed firm will have fully understood the scenario and if signed, will have agreed with the finding.</li> <li>• Believes the definition of systemic cause leads to conclusion on how a matter identified can be anything other than systemic. Requesting the PRB be explicit describing the relationship of a systemic cause in relation to a matter deemed isolated. Based on the definition in the exposure draft, the Committee can't see any situation where a systemic cause could be isolated. The example in paragraph .84 seems to underscore their concern. The isolated examples seems to contradict the definition of a systemic cause – the result of an isolated human error is a matter that can go undetected, thus the cause of the matter would be described as a “systemic” cause. Furthermore, the additional commentary introducing “probably” systemic cause reinforces the concern and leads the committee to the conclusion that a systemic cause would likely result in at least a finding. A materiality/significance threshold in the definition would be helpful.</li> <li>• Paragraph .91 requires the team captain be physically present at the closing meeting. Recommend adding “/exit conference” in those situations where an exit conference is convened since there are no open pending items regarding the type of report to be issued or the firm’s response and the team</li> </ul>

Respondent	Comments
	<p>captain has concluded the response is genuine, comprehensive and feasible. The Committee believes paragraphs .92 and .115 are sending an unintended message implying both a closing meeting and exit conference should be held whether there are MFCs or FFCs to enable the firm additional time to respond. Believes the separate exit conference is only necessary when there is a pass with deficiencies or fail report.</p>
<p>Henry L. White, CPA  North Carolina Association of CPAs Peer Review Committee</p>	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Suggests the Standards or Interpretations be clear as to how much, if any, participation the peer reviewer can have in regard to the firm’s remediation, including possible impairment of required independence of the peer reviewer.</li> <li>• Believes there is a need for a better definition of an engagement “not in conformity with standards in all material respects.” Recent experience with regulators and external users suggests those parties have an expectation that any departure (a “no” answer) should dictate that the reviewer conclude the engagement is nonconforming. Bolded questions and Part A checklists have assisted reviewers in providing consistency.</li> <li>• Believes there is a gap in the expectations of users of peer review reports and findings and the information provided in the reviewers or the Program as a whole. They believe those users whose expectations are not being met are regulators. While not specifically addressed in this exposure draft, we do believe the Board and/or AICPA needs to address this issue. They believe external users place more emphasis on the results of specific engagement reviews by the reviewer than on a review of the firm’s system of quality control.</li> <li>• Believes the AICPA should address the commercial considerations of the current compensation fee structure for firms performing peer reviews. With the additional requirements for reviewers, including a closing meeting, the concern is greater. Requests the PRB and AICPA provide assistance in the communication to the public and firms required to have a peer review performed that the costs associated with the conduct of a peer review will and should increase. These costs include both the expenses incurred by the administering entities and firms performing reviews.</li> </ul>



Respondent	Comments
<p>Chrisley N. Reed</p> <p>California Peer Review Committee</p>	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Believes it will be difficult to apply Interpretation 100-1 consistently – the team captain may consider failure to appropriate remediate nonconforming engagements as an indication of tone at the top that may result in a deficiency or significant deficiency. Examples of scenarios were provided for consideration.</li> <li>• Peer Review Standards Section .139 states that the peer review committee is specifically charged with evaluating the planned remediation for system reviews. We believe firms will feel pressured to recall or perform additional procedures or accept a tone at the top deficiency as part of this evaluation process and that may create additional legal risk for the firm. Alternatively, firms may resist the pass with deficiency or fail report, which may create legal exposure for team captains and peer review committee members.</li> <li>• Believes the time required for a firm to determine appropriate remediation will delay the process and cause peer reviews to be late.</li> <li>• Many of our committee members have also expressed concern that the requirement to add a tone at the top deficiency will put them in a more adversarial position with a firm. It is difficult enough explaining to firms that they will receive a pass with deficiency or fail report, without the suggestion that the firm’s tone at the top is unacceptable. Our committee members believe that fewer experienced reviewers will take on difficult firms and fewer peer reviewers will agree to be peer review committee members with these new requirements. We already have a peer reviewer shortage and with the additional scrutiny of reviewers we do not expect this to change.</li> </ul>
<p>Mark A. Malachin, CPA</p> <p>Ohio Society of CPAs Peer Review Committee</p>	<ul style="list-style-type: none"> <li>• Generally supports the proposed changes</li> <li>• Suggests that the MFC and FFC forms be redesigned to force reviewed firms to respond more specifically and robustly regarding its plans for remediation and the completion date for those plans.</li> <li>• Does not support expanding the scope of the review to allow inclusion of evidence from outside the review year but recognizes it is occasionally necessary. The Standards should clearly define this as something that is done infrequently, as a last resort. We believe that routinely allowing introduction of other evidence from outside the peer review year could result in situations where reported conclusions about the system of quality control for the peer review year could be based on significant amounts of evidence that relate to some other period than the review year. An example was provided where the last time a firm accepted an engagement was after the prior peer review year end but prior to the peer review where there was a finding re: the firm’s acceptance and continuance policies. The firm would have accepted those engagements without consideration of the prior review findings.</li> <li>• Suggests adding language before the next-to-last sentence to the effect that “This is also intended to provide the firm with additional time to identify and document the systemic cause of a matter, finding,</li> </ul>

Respondent	Comments
	<p>or deficiency if the firm has not already done so by the closing meeting date. If necessary the firm may consult with the reviewer to arrive at the systemic cause.”</p> <ul style="list-style-type: none"> <li>• Believes it is appropriate for the reviewed firm to give due consideration of how best to remediate findings and deficiencies, we believe that this could give rise to unnecessary delays in completion of reviews. Under current standards the report date is the date of the exit conference but prior to the date of the firm’s letter of response. The proposed changes will delay completion of the report (and submission of the review to the administering entity) by extending the review to allow the firm to consider its responses to findings and deficiencies. Since firms normally wait until receiving the report to draft their response, we recommend additional consideration and guidance including acknowledging the need for the reviewer to issue a draft report where appropriate and setting reasonable response times for the reviewed firm.</li> <li>• Believes that identification of non-must select industries in deficiency descriptions only when industry specific reduces transparency of results. If non-must select industries are not significant enough to identify in the scope paragraph, they are not significant enough to include references to such industries in the deficiencies. Identification of the non-must select industry when only industry specific does not add value as two firms may have the exact same deficiency but because one firm only performs audits in one industry, the industry is identified. Further, without an indication of all industries in which the firm practices, it is impossible to place such deficiency identification in proper perspective relative to the firm’s overall practice.</li> <li>• Provided several suggestions related to firm representation letters.</li> </ul>
<p>Katrina L. Salazar, CPA  California Board of Accountancy</p>	<ul style="list-style-type: none"> <li>• Supports improving the transparency and effectiveness of Peer Review to enhance the knowledge and competency of its licensees.</li> </ul>
<p>Ed Caine Mark A. Stewart Jr.  National Conference of CPA Practitioners</p>	<ul style="list-style-type: none"> <li>• Does not agree with the removal of Sections 4300 and 4400, QC P&amp;P Questionnaires. Smaller firms do not have dedicated staff to develop their own QCD, nor the same operating budgets as a larger firm to constantly produce their own QCD from scratch. The interactive tool does not resolve the problem of firms failing to update QCD annually. The more prudent change is to make is to simply make the language governing QC more forceful. Such language should state that a firm that chooses to use the AICPA questionnaires must replace their QCD with each revision of the questionnaires made by AICPA or must at a minimum update their QCD once a year.</li> <li>• Requests clarification for reviewing evidence prior to peer review year to support assessment of the design and compliance with system controls as it is ambiguous. Will it essentially mean that any</li> </ul>

Respondent	Comments
	<p>time a peer reviewer has a “Not Applicable” item during the review the peer reviewer must then start reviewing and sampling engagements from the two or more years prior to the peer review year?</p>
<p>Robert Giblichman, CPA  Illinois CPA Society Peer Review Report Acceptance Committee</p>	<ul style="list-style-type: none"> <li>• Agrees with most of the changes as proposed</li> <li>• Recommends switching the terms “closing meeting” and exit conference”</li> <li>• Recommends adding a “Definitions” section at the beginning of the Standards similar to that found in the clarified audit standards for many of the terms defined through the Standards, Interpretations, and this exposure draft.</li> <li>• It appears the Board has attempted to replace the generic “finding” used throughout the Standards with the more specific “matter” for which the ILCPA concurs. However, paragraph .70c, .70d, and .76 should also be revised to replace the phrase, “one or more findings” and “one or more deficiencies” with the phrase “one or more matters.”</li> <li>• The flowchart in Exhibit A of paragraph .71 should be revised to indicate that FFC Forms may also be issued in conjunction with a peer review rating of pass with deficiencies or fail.</li> <li>• Suggests defining closing meeting or references .38b(x) or paragraph .92 where it is defined</li> <li>• In Paragraph .91, replace “team captain” with “review team” or replace “its” with “his or her”</li> <li>• Believes the sentence in Interpretation 17-1 regarding extensions should be added to paragraph .92 and .115.</li> <li>• The Committee recommended programming changes to PRISM and changes to the Scheduling Form to support Interpretation 17-1. Inclusion of the closing meeting date with a notation that it should be no later than 30 days before the firm’s peer review due date. This would help reinforce to firms that proper planning of timing is important and that peer reviews should be scheduled accordingly (including changing YE date if necessary). Further, the timing of overdue workpapers should continue to generate off of the exit conference date or due date, whichever is earlier. However, these letters should generate 15 days after the exit conference date or 7 days after the reviewed firm’s peer review due date. Currently, the letter generates 51 days after the scheduled exit conference date or 21 days after the reviewed firm’s peer review due date, whichever is earlier. In addition, the overdue letter should permit a peer reviewer 10 days to submit the documentation to the AE. Currently, a reviewer is permitted 21 days in the first overdue work paper letter.</li> <li>• Paragraph .207, Appendix A - #8 and #9 are repeats</li> <li>• Paragraph .208, Appendix B - #5 should make clear that the firm representation letter is to be signed with an individual’s name(s) and not the firm name.</li> <li>• Paragraph .219, Appendix M – By adding “or report dates” the reader may be confused that the report covers more engagements than is actually included in the population of engagements from which the sample was selected (client periods ending during the peer review year as well as</li> </ul>

Respondent	Comments
	<p>compilation, review, and attestation reports dated within the peer review year, but for client periods ending prior to the peer review year) and is inconsistent with the conclusion paragraph which was not similarly revised. The Committee recommends that the phrases, “or report dates” and “as applicable,” not be added.</p> <ul style="list-style-type: none"> <li>• The SRM and Review Captain Checklist should be revised include questions for documenting the date and significant items discussed with the reviewed firm at the closing meeting.</li> </ul>
<p>Douglas C. Koval Peer Reviewer, Committee Member</p>	<ul style="list-style-type: none"> <li>• Agrees with most of the changes as proposed</li> <li>• Believes changes made to the determination of deficiencies not being tied to the existence of nonconforming engagements is a step forward and agrees with the idea that it is the firm’s responsibility to address those instances and state how they will be remediated. However, the additional wording added to the report is contradictory to this concept. The sentence “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” can be misleading. It might imply to a reader that consideration of nonconforming engagements is what drives the peer review rating.</li> <li>• For the rep letter, in the discussions regarding communication of regulatory and other matters, verbiage was added to say that “we have discussed <u>significant</u> issues from...” and he wonders whether significant could mean something different to the firm than to the reviewer and result in the firm not providing something to the reviewer. He believes all matters should be communicated and left to the team captain’s judgment as to whether those matters are significant.</li> </ul>

## Final Proposed Standards and Interpretations

### Why is this on the Agenda?

The [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#) was issued on November 10, 2015. The STF has considered the comments received and incorporated changes as appropriate.

The changes to the Standards and Interpretations are proposed to be effective for reviews commencing January 1, 2017 or later. Refer to Agenda Items 1.2B-1 and 1.2B-2.

### *Changes to the Proposed Guidance*

After consideration of the comments received, the STF has included the following significant changes or clarifications to that originally proposed in the exposure draft. All changes from the proposals included in the exposure draft are highlighted in yellow within the materials.

- Paragraphs .05 and .208 and Interpretation 5h-1 – Omission of Engagements
  - The exposure draft proposed changes to the representation letter that referenced “referral” to the appropriate regulatory, monitoring and enforcement bodies if a firm is terminated for omission of engagements.
  - A comment was received requesting clarification of whether that referral was outside of what is allowed in paragraph .146 (See Agenda Items 1.2D-1 and 1.2D-2)
  - The STF discussed the comment received and noted the following:
    - The term “referral” is not appropriate and therefore the representation should be: “If termination occurs, it may result in an investigation of a possible violation by an appropriate regulatory, monitoring or enforcement body.”
    - Due to the change in the language in the representation letter, the noncooperation interpretation (Interpretation 5h-1) should be changed accordingly.
- Paragraph .54 and Interpretation 54c-1 – Expanding Scope to Test Compliance in Prior Years
  - The exposure draft proposed that, when necessary, the team captain should expand scope to test compliance with the firm’s system of quality controls in the years preceding the peer review year.
  - Several comments were received requesting clarification of when the team captain should expand scope, questioning the benefits of doing so, and whether there were any reporting implications.
  - The STF discussed the comments received and noted the following:
    - Team captains *may* need to (vs. the originally proposed *should*) test elements of the firm’s system of quality control in prior years to be able to appropriately report on the system in effect for the peer review year-end, as referenced in the peer review report.
    - If a team captain is unable to test compliance with the firm’s system, it may result in a scope limitation after consultation with the AE. Each policy does not need to be tested to gain sufficient comfort but each element should be tested.
    - Changes should be made to paragraph .54 and Interpretation 54c-1 to address the points above.

- Including in the Standards and Interpretations that testing may occur outside of the peer review year is a key point for changing firm behavior and reinforcing that firms should focus on their system every year and not just in the year of peer review.
- Paragraph .100 and Interpretation 100-1 – Evaluation of Firm’s Remediation Plans
  - The exposure draft proposed that team captains should consider whether a tone at the top deficiency is necessary if a firm’s remediation plans for findings, deficiencies, significant deficiencies and nonconforming engagements are not appropriate.
  - Several comments were received expressing concerns regarding the potential delay to finalizing peer reviews if reviewers must assess the firm’s response prior to concluding on the review and whether reviewers can apply Interpretation 100-1 and determination of tone at the top deficiencies, consistently.
  - The STF discussed the comments received and noted the following:
    - In developing the proposed changes, the STF thoroughly discussed the time required to determine appropriate remediation, particularly for firms with sophisticated systems of quality control. Interpretation 99-2 was proposed to address this concern.
    - Firms are only required to remediate as appropriate in accordance with professional standards and firms are not expected to recall or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken/planned are appropriate, it would not result in a tone at the top deficiency. Firms should avoid the default “we’ll fix it next time” response without thought behind that answer. That may be the appropriate answer, but firms should be able to articulate why that is the appropriate answer.
    - There is not a requirement to create a tone at the top deficiency. However, if the reviewer believes it is appropriate, it shouldn’t be avoided due to it putting the reviewer in an adversarial position. The PRB acknowledges these are difficult situations and has created the proposed Standards, Interpretations, supplemental guidance in section 3100, and deficiency examples in section 4250 to assist reviewers with pointing to guidance for why a tone at the top deficiency is included in the report.
    - Additional guidance should be added to Interpretation 100-1 to address the points above.
- Paragraph .208-4 – Engagement Review Representation Letter
  - The exposure draft did not propose any changes to the dating of representation letters for Engagement Reviews and therefore concluded the letter should be dated when the Engagement Summary Form is submitted to the reviewer or AE.
  - A comment was received questioning whether the representation letter should be dated as of the report date due to the addition of a representation regarding the firm’s remediation of nonconforming engagements – something that would not be known as of the date of the Engagement Summary Form.
  - The STF discussed the comment and determined the representation letter should be dated as of the date of the report for Engagement Reviews (including CART reviews). The appropriate change was made to paragraph .208

Note that not all of the Interpretations in Agenda Item 1.2B-2 were included in the exposure draft. Only changes to the Interpretations that were included are highlighted in yellow. The others are considered minor conforming changes (e.g., changing cause to system cause)

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except 5h-1. As the changes to Interpretation 5h-1 are considered a significant conforming change, it is also highlighted in yellow.

### *Key Aspects of Final Guidance*

NOTE – there are exceptions to some of this guidance and therefore the Standards and Interpretations should be followed. This summary is meant to explain what may ordinarily occur.

### All Reviews

- If a firm is dropped or terminated for omission of engagements from the peer review, it may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body (paragraphs .05 and .208 and Interpretation 5h-1)
- Peer reviews should be conducted within three to five months following the peer review year-end. (paragraph .17 and Interpretation 17-1)
- Peer reviewers should submit all peer review documents to the AE that are to be considered by the RAB for acceptance, including the firm's letter of response, if applicable. (paragraphs .39 and .106)
- Firms are responsible for identifying the appropriate remediation of nonconforming engagements and reviewers are responsible for assessing whether the firm's response is appropriate (paragraphs .67, .109, and Interpretations 67-1 and 67-2)
- FFC forms and reports should no longer include a reviewer's recommendation (paragraphs .73, .96, .113 and .122)
- Prior to finalizing the peer review report, the reviewer should discuss preliminary results with the firm at a closing meeting. After assessing the firm's responses to matters, findings, and deficiencies or significant deficiencies, the reviewer will hold an exit conference to discuss the final results, pending AE acceptance. The closing meeting should ordinarily occur at least 30 days prior to the firm's due date. These meetings may be combined, if appropriate. (paragraphs .91, .92 and .115 and Interpretations 91-1 and 91-2)
- Reports should include revised titles, headings, firm responsibilities, information included at the URL, and remove the reviewer's recommendations (for pass with deficiencies and fail reports) (paragraphs .96, .122 and appendices C-T)
- Firms are not permitted to remove required representations from its representation letter (paragraph .208 and Interpretation 208-8-1)

### System Reviews

- Team captains should evaluate and document the firm's actions taken in response to the prior review report and FFC forms and consider any tone at the top implications if appropriate actions were not taken. (paragraph .39, Interpretation 39-1)
- The AICPA will no longer provide the Quality Control Policy and Procedures Questionnaires to be used by firms to document their systems of quality control. Additionally, the managing partner interview form will not be required with the questions incorporated into the team captain checklist (paragraph .44)
- Team captains should test compliance with each element of the firm's system of quality control. This may require the team captain to test compliance with certain elements outside of the peer review year. If the team captain is unable to test compliance with each element, it may be a scope limitation. Each policy does not need to be tested to gain sufficient comfort but each element should be tested. (paragraph .54 and Interpretation 54c-1)

- Team captains may need to expand scope to determine pervasiveness of matters and nonconforming engagements prior to concluding the matter is isolated (paragraphs .68 and .84)
- Finding and deficiency descriptions should address the applicable requirement of the Statements on Quality Control Standards, the scenario that led to the finding or deficiency and references to nonconforming engagements as a result of the finding or deficiency, if applicable. (paragraphs .73 and .96)
- It is the team captain's responsibility, in collaboration with the firm, to identify the systemic cause of matters identified. The new Guidelines for Review and Testing of Quality Control Policies and Procedures will assist this determination. (paragraphs .75 and .83 and Interpretation 83-1)
- Team captains may include a deficiency or significant deficiency in the peer review report for quality control only related matters. There does not need to be a correlating nonconforming engagement. (paragraph .79 and Interpretation 79-1)
- The closing meeting should be held in person but the exit conference may be held via teleconference (paragraphs .91 and .92)
- The Summary of No Answers from the Guidelines for Review and Testing of Quality Control Policies and Procedures should be submitted to the AE (paragraph .94 and Interpretation 94-1)
- Firms are responsible for identifying appropriate remediation of nonconforming engagements and systemic issues but may consult with the team captain. Firm responses to FFCs and report deficiencies should address the firm's actions taken or planned to remediate nonconforming engagements, findings and deficiencies in the firm's system of quality control, and the timing of remediation (paragraph .99 and Interpretation 99-1)
- Firms that are unable to identify appropriate remedial actions prior to the exit conference should document interim steps taken, confirm its intent to remediate, and expect an implementation plan or corrective action from the RAB to provide its final remediation. (paragraph .99 and Interpretation 99-1)
- Team captains should consider whether there is a tone at the top weakness if a firm's response to matters, findings, deficiencies or nonconforming engagements is inappropriate (paragraph .100 and Interpretation 100-1)

#### Engagement Reviews

- The closing meeting and exit conference may be held via teleconference (paragraph .115)
- Firms are responsible for identifying appropriate remediation of nonconforming engagements and systemic issues but may consult with the review captain. Firm responses to FFCs and report deficiencies should address the firm's actions taken or planned to remediate findings and deficiencies, including timing of the remediation and additional procedures to ensure it is not repeated in the future (paragraph .125)
- Engagement Review representation letters should be dated as of the peer review report date, including CART reviews (paragraph .208-4)

#### QCM Reviews

- QCM reviewers may include a deficiency or significant deficiency in the QCM report for quality control only related matters. There does not need to be correlating materials that were not deemed reliable. (paragraph .183)
- Providers are responsible for identifying appropriate remediation of materials but may consult with the team captain. Provider responses to FFCs and report deficiencies



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should address the provider's actions taken or planned to remediate the error or omission identified (including the provider's plan for notifying known users of the materials), to remediate the findings and deficiencies in the provider's system of quality control, and the timing of remediation (paragraph .197)

#### Committee Considerations

- If the team captain has not been able to identify the systemic cause or if the firm has not had time to determine the appropriate remediation for nonconforming engagements and systemic issues and those items are included on an FFC form or in the report, committees should consider an implementation plan or corrective action requiring the firm to provide information to the committee upon remediation and allow the committee to review the results (paragraphs .139 and .142)

#### **Feedback Received**

Refer to Agenda Item 1.2A for a summary of the comments received on the transparency exposure draft. The full comments can be found [here](#). Additional feedback was received from AATF and TRATF.

#### **PRISM Impact**

Changes to the corrective actions will require minor changes to PRISM.

#### **AE Impact**

The most significant changes are those made to the RAB Handbook. Changes will also be made to the administrative checklist to ensure the Summary of No Answers for the revised guidelines checklist is received with the working papers.

#### **Communications Plan**

An extensive communications and training plan will be necessary during 2016 to prepare firms and reviewers for reviews commencing 1/1/17 or later. Communications will be made throughout the year reminding firms that the AICPA will no longer maintain peer review questionnaire for use as a quality control document and reminding reviewers of the changes to guidance.

#### **Manual Production Cycle (estimated)**

The changes be included in the January 2017 update.

#### **Effective Date**

The changes to the Standards and Interpretations will be effective for reviews commencing January 1, 2017 or later.

#### **Board Consideration**

Discuss and approve Agenda Items 1.2B-1 and 1.2B-2.

## Final Proposed Standards

### Overview

#### Introduction and Scope

.05 Firms (and individuals) (see interpretations) enrolled in the program have the responsibility to:

- a. Design and comply with a system of quality control for its accounting and auditing practice that provides the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (AICPA, *Professional Standards*, QC sec. 10), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice.
- b. Perform accounting and auditing engagements in accordance with applicable professional standards using competent personnel<sup>fn 1</sup> (partners<sup>fn 2</sup> and staff<sup>fn 3</sup>).
- c. Have independent peer reviews of their accounting and auditing practices (see interpretations). All firms that an AICPA member is associated with should undergo a peer review if the services performed and reports issued by the firm require a peer review.
- d. Engage a peer reviewer to perform the peer review in accordance with these standards, in a timely manner.
- e. Take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken.

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<sup>fn 1</sup> Personnel are defined per Statement on Quality Control Standards (SQCS) as partners and staff.

<sup>fn 2</sup> Partners are defined per SQCS as any individual with authority to bind the firm with respect to the performance of a professional services engagement.

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

- f. Provide written representations to describe matters significant to the peer review (see [appendix B](#) “Considerations and Illustrations of Firm Representations”).
  - g. Understand the AICPA Peer Review Board’s guidance on resignations from the program (see interpretations).
  - h. Cooperate with the peer reviewer, administering entity, and the AICPA Peer Review Board (board) in all matters related to the peer review, that could impact the firm’s enrollment in the program, including arranging, scheduling, and completing the review and taking remedial, corrective actions and implementing other plans as needed (see interpretations).
- .08** The majority of the procedures in a System Review should be performed at the reviewed firm’s office (see interpretations). Engagement Reviews are normally performed at a location other than the reviewed firm’s office.
- .09** The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. On System Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. On Engagement Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified in engagements. On both System and Engagement Reviews, the firm is also expected to follow professional standards in response to engagements identified as not performed or reported in conformity with applicable professional standards in all material respects (“nonconforming”). These actions will be positive and remedial. Disciplinary actions (including those that can result in the termination of a firm’s enrollment in the program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners<sup>1</sup> and employees) will be taken only for a failure to cooperate, failure to correct inadequacies, or when a firm is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

## General Considerations

### Timing of Peer Reviews

- .16** The due date for a peer review is the date by which the peer review report, and if applicable, letter of response, and the peer reviewer’s materials are to be submitted to the administering entity.

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<sup>1</sup> A partner is a proprietor, shareholder, equity or non-equity partner, or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned. Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as shareholder, member, or proprietor.

- .17** Peer reviews must cover a current period of one year to be mutually agreed upon by the reviewed firm and the reviewing firm. Ordinarily, the peer review should be conducted within three to five months following the end of the year to be reviewed ([see interpretations](#)).

## Performing System Reviews

### Basic Requirements

- .38** A System Review should include, but not be limited to, the following procedures:
- a. Planning the review, as follows:
    - i. Obtain the results of the prior peer review (see [paragraph .39](#)).
    - ii. Inquire of the firm about the areas to be addressed in the written representations (see [paragraph .40](#)).
    - iii. Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the review (see [paragraphs .41–.45](#)).
    - iv. Obtain a sufficient understanding of the design of the firm's system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review (see [paragraphs .41–.45](#)).
    - v. Assess peer review risk (see [paragraphs .46–.52](#)).
    - vi. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed and to determine the nature and extent of the tests to be applied in the functional areas (see [paragraphs .53–.63](#)).
  - b. Performing the review, as follows:
    - i. Review the firm's design and compliance with its system of quality control. The review should cover all organizational or functional levels within the firm (see [paragraphs .53–.54](#)).
    - ii. Review significant risk areas on selected engagements, including the relevant accounting, audit, and attestation documentation and reporting (see [paragraphs .64–.65](#)).
    - iii. Conclude on the review of engagements (see [paragraphs .66–.67](#)).
    - iv. Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary (see [paragraph .68](#)).
    - v. Determine the relative importance of matters (see [paragraphs .69–.72](#)).
    - vi. Prepare the Matter for Further Consideration (MFC) forms, Disposition of MFC (DMFC) forms, and any related Finding for Further Consideration (FFC) forms (see [paragraphs .73–.74](#)).
    - vii. Aggregate and systemically evaluate the matters (see [paragraphs .75–.86](#)).
    - viii. Form conclusions on the type of report to issue (see [paragraphs .87–.90](#)).
    - ix. Obtain the written representations from the reviewed firm (see [paragraph .05\(f\)](#) and [appendix B](#)).

- x. Conduct an exit conference If at the conclusion of fieldwork, the firm needs more time to consider its response to matters identified during the peer review, conduct a closing meeting in advance of the exit conference. The purpose of the closing meeting is to discuss with senior members of the reviewed firm ~~to discuss~~ the review team's ~~comments observations;~~ matters, findings, deficiencies, and significant deficiencies identified; ~~and~~ the expected type of report to be issued, and firm's responsibilities related to such matters.
- ~~xi. After the firm has responded to matters identified in the peer review, conduct an exit conference with senior members of the firm to discuss a summary of the peer review results, the firm responses, and the type of report to be issued. After the firm has responded to matters identified in the peer review, n with senior members of the firma summary of the peer review results, ,Dependent upon the circumstances of each review, the closing meeting and exit conference may be combined.; recommendations; MFCs and related FFCs; and the type of report to be issued and the deficiencies or significant deficiencies to be included in such report and to resolve any disagreements (see paragraphs .91–.92).~~
- xii. Prepare a written report on the results of the review (see [paragraphs .94–.96](#)).
- xiii. ~~Review and provide comments to the reviewed firm on its~~Evaluate the firm's actions taken or planned in response to FFCs and the report ~~response to the report~~, if applicable (see [paragraphs .97–.101](#)).
- xiv. The team captain submits the report, the firm's letter of response, if applicable, and applicable working papers to the administering entity (see [paragraph 100](#)).

## Planning Considerations

- .39** To assist the review team in the planning of the review, the team captain should obtain the prior peer review report, ~~the~~ letter of response, if applicable, ~~and the~~ letter of acceptance, ~~all from the reviewed firm. The team captain should also obtain the prior~~ FFC forms, if applicable ~~(from the administering entity if the team captain's firm did not perform the prior peer review) and the firm's representation letter from the firm or administering entity.~~ The team captain should consider whether the issues discussed in those documents require additional emphasis in the current review and, in the course of the review, should evaluate the actions of the firm in response to the prior report and FFC forms, if applicable (see [interpretations](#)).
- .40** The reviewer should inquire of the firm regarding the areas to be addressed in the written representation (see [paragraph .05\(f\)](#) and [appendix B](#)) and consider whether the areas discussed require additional emphasis in the course of the review (see [interpretations](#)).

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

- .44 The understanding of the firm's accounting and auditing practice and system of quality control is ordinarily obtained through such procedures as inquiries of appropriate management and other personnel, reviewing the firm's internal policies and procedures, and reviewing the firm's responses to questionnaires developed by the board quality control documentation.

## Understanding and Assessing Peer Review Risk Factors

### *Relationship of Risk to Scope*

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

## Planning and Performing Compliance Tests

- .53 After performing the aforementioned planning procedures, the team captain should then develop a general plan for the nature and extent of conducting compliance tests of engagements (to directly test the "engagement performance" element in SQCS No. 8) and the other elements described in SQCS No. 8 (collectively referred to as the *functional areas*). The compliance tests should be tailored to the practice of the reviewed firm and, taken as a whole, should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed firm's system of quality control was complied with to provide the firm with reasonable (not absolute) assurance of performing and reporting in conformity with applicable professional standards in the conduct of its accounting and auditing practice in all material respects.
- .54 Such tests should be performed at the practice office(s) visited and should relate to individual engagements and the functional areas (elements of the firm's system of quality control). The tests should include the following:
- a. Review significant risk areas (see [paragraph .65](#)) on selected engagements, including accounting and auditing documentation, and reports, to evaluate whether the engagements were performed and reported on in conformity with applicable professional standards and in compliance with relevant firm quality control policies and procedures.
  - b. Interview firm personnel at various levels and, if applicable, other persons responsible for a function or activity to assess their understanding of, and compliance with, the firm's quality control policies and procedures.

- c. Review evidential material to determine whether the firm has complied with its policies and procedures **for monitoring each element of its system of quality control, which may include evidence since the previous peer review.**
- d. Review other evidential material as appropriate. Examples include selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with human resource requirements, and the firm's technical reference sources (see interpretations).

### *Selection of Engagements*

- .58** Engagements subject to selection for review ordinarily should be those with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures (see interpretations). Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection. If the current year's engagement has not been completed and issued, and if a comparable engagement within the peer review year is not available, the prior year's engagement may be reviewed. If the subsequent year's engagement has been completed and issued, the review team should consider, based on its assessment of peer review risk, whether the more recently completed and issued engagement should be reviewed instead (see interpretations). Review team members should not have contact with or access to any client of the reviewed firm in connection with the peer review.

### *Concluding on the Review of an Engagement*

- .66** For each engagement reviewed, the review team should conclude on its review by documenting whether anything came to its attention that caused it to believe that the engagement was not performed or reported on in conformity with applicable professional standards in all material respects (see interpretations).
- .67** The team captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (see interpretations).

### *Expansion of Scope*

- .68** If, during the peer review, the review team concludes that there was a failure to reach an appropriate conclusion on the application of professional standards in all material respects on one or more of the reviewed engagements **or elements of the firm's system of quality control**, the review team should consider whether the application of additional peer review procedures is necessary. This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the failure is indicative of a pattern of such failures, whether it is a **finding, deficiency, or** significant deficiency in the design of the reviewed firm's system of quality control or in its compliance with the system, or whether it is both. In some circumstances, the reviewer may conclude that, because of compensating controls or for other reasons, further procedures are unnecessary. If, however, additional procedures are



deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements or aspects of functional areas. Additional engagements may be in the same industry, supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to perform or report in conformity with professional standards.

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

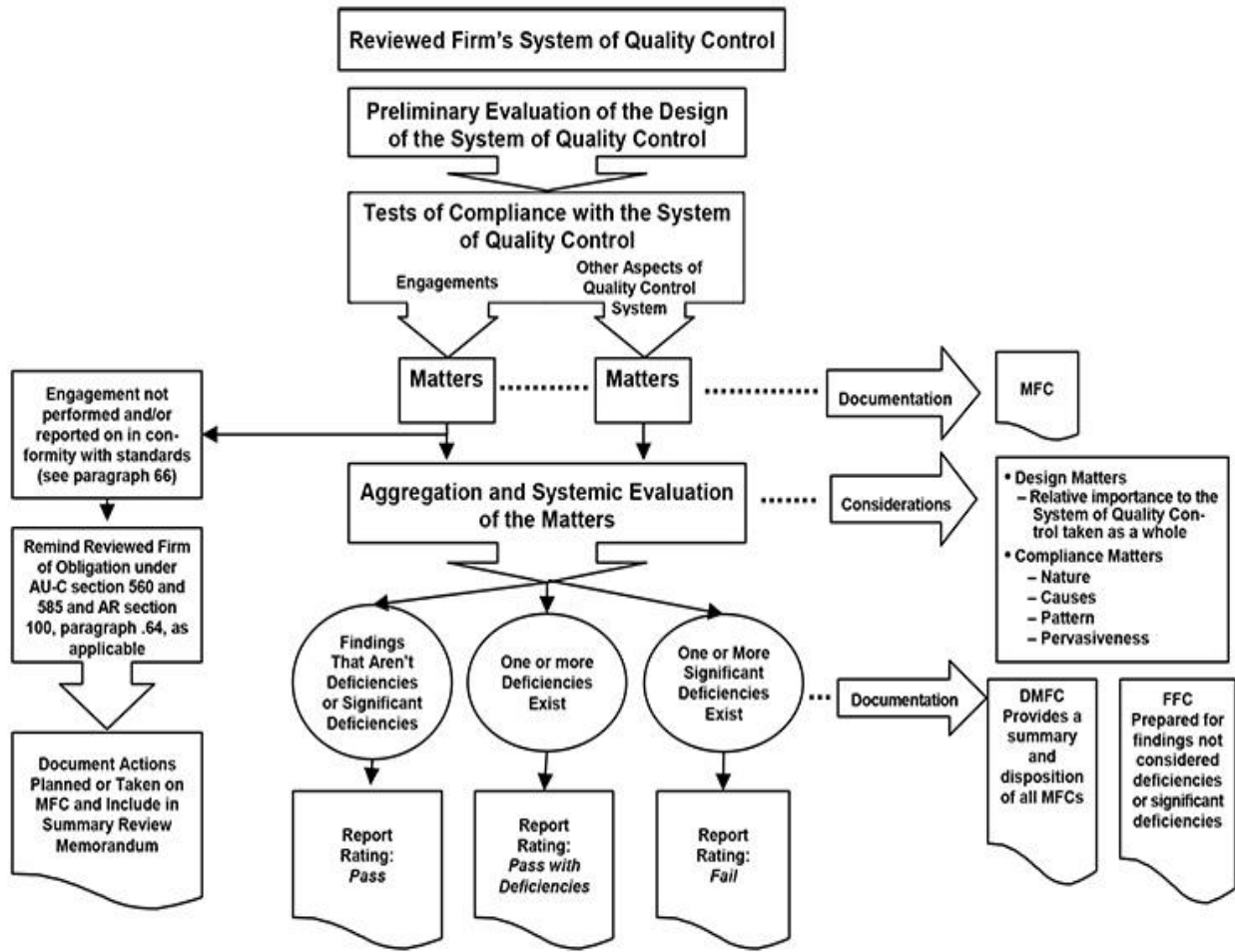
- .69** In understanding the firm’s system of quality control, the team captain may note that the system is not designed appropriately. Similarly, the performance of compliance tests may uncover that the system is not being complied with appropriately or may identify a design weakness that was not identified during the planning of the peer review. With any of these items, the team captain has available a set of definitions to assist in classifying the condition noted.
- .70** Determining the relative importance of matters noted during the peer review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) to document these items when applicable, are intended to assist in aggregating and evaluating the peer review results, concluding on them, and determining the nature of the peer review report to issue:
- a. A peer reviewer notes a *matter* as a result of his or her evaluation of the design of the reviewed firm’s system of quality control or tests of compliance with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm’s system of quality control. Matters are typically one or more “No” answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm’s system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form.
  - b. A *finding* is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.
  - c. A *deficiency* is one or more findings that the peer reviewer has concluded, due to the nature, **systemic** causes **(see paragraph .75)**, pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm’s system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and



reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.

- d. A *significant deficiency* is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of *fail*.
- .71** A broad understanding of the peer review process, from the preliminary evaluation of the design of the system of quality control, to the tests of compliance, to the decision making process of determining whether an item noted during a System Review is a matter, finding, deficiency, or significant deficiency, is shown in [exhibit A](#). The exhibit also illustrates the aggregation of these items, where those items are documented in the practice aids and how they might affect the type of report issued.

Exhibit A



.72 As described by [exhibit A](#) in paragraph .71, depending on the resolution of a matter and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated and, after considering the nature, systemic causes ([see paragraph .75](#)), pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency. A matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.

.73 A matter is documented on a MFC form. If the matter, after further evaluation, gets elevated to a finding but not a deficiency or significant deficiency, it is documented on a FFC form. The FFC form is a standalone document that includes the reviewer's recommendation description of the finding, the systemic cause, if known (see paragraph .75), and the reviewed firm's response regarding actions planned or taken and the timing of those actions by the firm. The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable. MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm's FFC form responses for appropriateness and responsiveness

(see [paragraphs .141–.145](#)) and determine whether any further action is necessary. If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is communicated in the report itself, ~~along with the reviewer's recommendation~~. The firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm, which is also evaluated for appropriateness and responsiveness (see [paragraphs .139–.140](#)).

- .74 In order to document the disposition of all the MFCs, the team captain completes a DMFC form. The DMFC form is part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each as to whether it was cleared, discussed with the firm during the [closing meeting or](#) exit conference ([see paragraphs .91 and .92](#)), included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of *pass with deficiencies* or as a significant deficiency in a report with a peer review rating of *fail*.

#### Aggregating and [Systemically](#) Evaluating Matters

- .75 The team captain, in collaboration with the firm, should determine the systemic cause of matters identified. A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected. Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control. To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures. The review team should consider their relative importance [of the matters](#) to the firm's system of quality control as a whole, ~~including~~ ~~and their~~ [the](#) nature, [systemic](#) causes, pattern, and pervasiveness, [to determine the impact to the peer review report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason\(s\) as part of his or her summary review memorandum.](#)
- .76 Proper application of the standards assists team captains in evaluating the systemic cause of matters and, as a result, the type of report to issue. Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the peer review.

#### *Design Matters*

- .77 A design matter exists when the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would not result in engagements performed or reported on in accordance with professional standards in some respect. To be effective, a system of quality control must be designed properly, and all of the quality control policies

and procedures necessary to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with. To make this determination, the review team should consider the implications of the evidence obtained during its evaluation of the system of quality control and its tests of compliance, including its reviews of engagements. For example, a pattern of engagement failures to perform or report in conformity with applicable professional standards in all material respects (that is, failures requiring the application of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, or AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* [AICPA, *Professional Standards*]), likely is indicative of a finding-matter pertaining to the design of the reviewed firm's quality control policies and procedures. Depending upon the resolution of the matter and the process of aggregating and evaluating peer review results, the matter may develop into a finding, deficiency, or significant deficiency.

**.78** As noted in SQCS No. 8, "The nature of the policies and procedures developed by individual firms to comply with this Statement will depend on various factors such as the size and operating characteristics of the firm." Likewise, the relative importance of design matters noted in the reviewed firm's quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the firm's size, organizational structure, and the nature of its practice. For example, a matter noted during the review of a quality control policy or procedures may be particularly or wholly offset by another policy or procedure. In this circumstance, the review team should consider the interrelationships among the elements of quality and weigh the matters noted against compensating policies and procedures to determine whether a finding exists and its relative importance.

**.79** There may be circumstances in which the reviewer finds-identifies few findings in the work performed by the firm and yet may conclude that the design of the firm's system of quality control needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as human resources (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects and may result in a deficiency in a report with a peer review rating of pass with deficiencies or fail (interpretations). ~~However, in the absence of findings in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in a FFC as a finding rather than result in a report with a peer review rating of pass with deficiencies or fail.~~

### ***Compliance Matters***

**.80** A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Because a variance in individual performance and professional

interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

- .81 In assessing whether the degree of compliance was adequate to provide the required assurance, the review team should consider the nature, systemic causes, pattern, and pervasiveness of the instances of noncompliance noted and their relative importance to the firm's system of quality control as a whole, not merely their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the firm's size, organizational structure, and the nature of its practice.
- .82 To determine the degree of noncompliance, the review team should evaluate the matters of noncompliance, both individually and in the aggregate, recognizing that adherence to certain policies and procedures of the reviewed firm is more critical to the firm obtaining reasonable assurance of performing and reporting in conformity with applicable professional standards than adherence to others. In this context, the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in engagements not being performed or reported on in conformity with applicable professional standards in all material respects. The more direct the relationship between a specific quality control policy or procedure and the application of professional standards, the lower the degree of noncompliance necessary to determine whether a matter (or matters) is a finding and whether a finding is a deficiency or significant deficiency.

### **Determining Whether There is a the-Systemic Cause for a Finding**

- .83 When the review team is faced with an indication that a matter(s) could be a finding, ~~or the firm failed to perform or report in conformity with applicable professional standards in all material respects,~~ the review team's first task in such circumstances, in collaboration with the firm, is to determine the systemic cause ~~of the finding or failure~~ (see interpretations). Causes that might be systemic and might affect the type of peer review report issued include, but are not limited to, the following:
- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
  - b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
  - c. The failure should have been detected if the firm's quality control policies and procedures had been followed.
  - d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or

knowledge; in some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion.

- .84 ~~The A matter finding or failure to perform or report in conformity with applicable professional standards in all material respects~~ may be the result of an isolated human error and, therefore, would not necessarily mean that a ~~peer review report with a peer review rating of pass with deficiencies or fail should be issued~~ finding, deficiency, or significant deficiency exists (see interpretations). However, if the reviewer believes that the **probable systemic** cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a ~~matter finding or failure to perform or report in conformity with applicable professional standards in all material respects~~ on an engagement or ~~a finding~~ within a functional area also exists in other engagements or in other functional areas, the reviewer needs to consider carefully ~~the need whether~~ to elevate the issue a peer review report with a peer review rating of pass with deficiencies or fail matter to a finding, deficiency, or significant deficiency.
- .85 Although an isolated matter or an instance of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report, its nature, systemic cause (if determinable), and relative importance for the firm's system of quality control as a whole should be evaluated in conjunction with the review team's other findings matters before making a final determination (see interpretations).

### *The Pattern and Pervasiveness of Matters*

- .86 The review team must consider the pattern and pervasiveness of matters and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature, systemic causes, and relative importance in the specific circumstances in which they were observed. As noted in the preceding paragraphs, the review team's first task is to try to determine why the matters occurred. In some cases, the design of the firm's system of quality control may be deficient (for example, when it does not provide for timely involvement in the planning process by a partner of the firm or there is inadequate supervision of engagement planning). In other cases, there may be a pattern of noncompliance with a quality control policy or procedure such as when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were not used or relevant questions or points were incorrectly considered. That increases the possibility that the firm might not perform or report in conformity with applicable professional standards in all material respects, which also means that the reviewer must consider carefully whether the matter(s) individually or in the aggregate is (are) a finding, deficiency, or a significant deficiency ~~and whether there is the need to issue a peer review report with a peer review rating of pass with deficiencies or fail~~. On the other hand, the types of matters noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the matters were isolated cases of human error that should not result in a peer review report with a peer review rating of *pass with deficiencies or fail*.



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

- .87 The team captain must use professional judgment in determining the type of peer review report to issue. This judgment requires the consideration of several factors, including an understanding of the firm's system of quality control and the nature, systemic causes, pattern, and pervasiveness of matters and their relative importance to the firm's system of quality control taken as a whole, including limitations on the scope of the review.

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

- .88 A report with a peer review rating of *pass* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, or significant deficiencies, ~~or recommendations~~. In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.

### *System Review Report With a Peer Review Rating of Pass With Deficiencies*

- .89 A report with a peer review rating of *pass with deficiencies* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report. These deficiencies are conditions related to the firm's design of and compliance with its system of quality control that could create a situation in which the firm would have less than reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the deficiencies to the quality control system taken as a whole. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.

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

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

professional standards in all material respects. In the event of a scope limitation, a report with a peer review rating of *fail (with a scope limitation)* is issued.

### **Communicating Conclusions at the Communication Requirements for Closing Meeting and Exit Conference**

- .91** Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting. Ordinarily, the team captain should ordinarily be physically present at the exit conferenceclosing meeting, unless the System Review is performed at a location other than the reviewed firm's office. (see interpretations). The exit conferenceclosing meeting may also be attended by representatives of the administering entity, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):
- a. Preliminary peer review results, including A firm that has a System Review should respond promptly to questions raised in the review in order to assist the review team in reaching its conclusions. Prior to issuing its report or finalizing FFC form(s), if applicable, the review team should communicate its conclusions to senior members of the reviewed firm at an exit conference (see interpretations). any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.
  - b. The review team should also communicate, if applicable, that the firm's requirement will be required to respond to the matters documented on MFC form(s), findings documented on the FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report. Ordinarily, the team captain should be physically present at the exit conference, unless the System Review is performed at a location other than the reviewed firm's office. (see interpretations)The exit conference may also be attended by representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities.
  - c. The exit conference is also the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s). Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.
- .92** The reviewed firm is entitled to be informed at the exit conference about any matters documented on the MFC form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report to be issued. An exit conference will be held after the firm has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the



deficiencies or significant deficiencies to be included in the report. ~~The review team should also communicate, if applicable, that the firm will be required to respond to the matters documented on MFC form(s), findings documented on the FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.~~ The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.
- b. ~~The review team should also communicate that the firm may be required, if applicable, to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report or (2) complete an implementation plan to address the findings noted in the FFC form(s). Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable.~~ The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program. The exit conference is also the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

### **Addressing Disagreements Between the Reviewer and the Reviewed Firm**

.93 Disagreements may arise on the resolution of various issues, for instance, related to the review of particular engagements, the systemic cause for a deficiency, or issues related to a design deficiency. In addition, there could be a disagreement on the appropriate approach to be taken in performing or reporting in conformity with applicable professional standards, or the review team might not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and that each party has the right to challenge each other on an issue. Nevertheless, a disagreement on the resolution of an issue may persist in some circumstances. The reviewed firm or reviewer should be aware that they may consult with

their administering entity and, if necessary, request that the administering entity's peer review committee resolve the disagreement. If the administering entity's full peer review committee is unable to resolve the disagreement, the administering entity may refer unresolved issues to the board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists, or whether the reviewed firm or review team is not cooperating, in order for the administering entity to refer the issue to the board.

## Reporting on System Reviews

### General

- .94 The team captain should furnish the reviewed firm with a written report within 30 days of the exit conference date or by the firm's peer review due date, whichever is earlier. A report on a review performed by a firm ~~is to should be~~ issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms ~~is to should be~~ issued on the letterhead of the firm of the team captain performing the review. The report in a System Review ordinarily should be dated as of the date of the exit conference. See interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

### Preparing the Report in a System Review

- .95 The standard form for a report with a peer review rating of *pass* is illustrated in [appendix C](#), "Illustration of a Report With a Peer Review Rating of *Pass* in a System Review." Illustrations of reports with a peer review rating of *pass with deficiencies* and *fail* are presented in [appendixes E](#), "Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review," and [I](#), "Illustration of a Report With a Peer Review Rating of *Fail* in a System Review," respectively. Illustrations of reports with a peer review rating of *pass (with a scope limitation)*, *pass with deficiencies (with a scope limitation)*, and *fail (with a scope limitation)* are presented in [appendixes D](#), "Illustration of a Report With a Peer Review Rating of *Pass (With a Scope Limitation)* in a System Review;" [G](#), "Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review;" and [K](#), "Illustration of a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review," respectively.
- .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 in the Firm's System of Quality Control, 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 a summary of the nature, objectives, scope, limitations of, and procedures performed in a System Review are as described in the Standards can be found on the AICPA website where the Standards are summarized.

~~f.~~ Include a URL reference to the AICPA website where the standards are located. State that the summary includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~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 and for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, where appropriate, and for remediating weaknesses in its system of quality control, if any.

~~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.

~~State that the nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards.~~

~~Include a URL reference to the AICPA website where the standards are located.~~

~~i.~~ 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.

~~g.j.~~ State that reviews by regulatory entities as communicated by the firm, if applicable, were considered in determining the nature and extent of procedures.

~~h.k.~~ 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.

~~i.l.~~ Identify the different peer review ratings that the firm could receive.

~~j.m.~~ 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.~~

~~k.n.~~ In a report with a peer review rating of pass with deficiencies:<sup>2</sup>

- 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.~~

~~k.o.~~ 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.~~

~~p.~~ 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) which include reference to the applicable requirement of Statements on Quality Control Standards, the scenario that led to the deficiency or significant deficiency, and reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable (See-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 issued on the firm's previous peer review (see interpretations). This should be determined based on the ~~underlying~~ systemic cause of the deficiencies or

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<sup>2</sup> 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.

significant deficiencies.

- Identify the level of service for any deficiencies or significant deficiencies.
- Identify the applicable 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 must select industries and practice areas in which nonconforming engagements were noted as a result of a deficiency or significant deficiency.

## **Firm Responses in a System Review and Related Team Captain Considerations**

~~.97100~~ The firm should discuss matters, findings, deficiencies, and significant deficiencies with the team captain. If, after a discussion with the team captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter and follow the guidance in paragraph .93 to resolve the disagreement. (see paragraph .93). If the reviewed firm still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for the disagreement.

~~.989~~ The reviewed firm should respond to all matters communicated on an MFC form, findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related communicated on an FFC form and deficiencies, or significant deficiencies communicated in the peer review reports. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The team captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations). The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference.

~~.979~~ If the reviewed firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. ~~†~~The reviewed firm should ~~respond in writing~~ address the following in its response with respect to each finding, deficiency, and significant deficiency (see interpretations): ~~to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the team captain or by the firm's peer review due date, whichever date is earlier. Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the team captain for review, evaluation, and comment (see interpretations).~~

- a. Nonconforming engagements, including the following:



- The firm's actions taken or planned to remediate the engagements identified on the FFC form or in the report as nonconforming.
  - The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control (see interpretations)
- b. Systemic issues unrelated to nonconforming engagements:
- The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control
- c. Timing of the remediation

**.100** The team captain should review and evaluate the firm's responses on the FFC forms and letter of response prior to the exit conference. **The appropriateness of the firm's response should be discussed during the exit conference.** The firm's letter of response should be finalized and dated as of the exit conference date and provided to the team captain. The team captain should include the firm's letter of response with his or her report and working papers submitted to the administering entity (see interpretations).

~~**.98** If the reviewed firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.~~

~~**.99** The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The team captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations).~~

~~**.100** If, after a discussion with the team captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph .93). If the reviewed firm still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for the disagreement.~~

**.101** Illustrations of letters of response by a reviewed firm to reports in a System Review with a peer review rating of *pass with deficiencies* and *fail* are included in [appendixes F](#), "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review;" [H](#), "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review;" [J](#), "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in a System Review;" and [L](#), "Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review."

## Performing Engagement Reviews

### Basic Requirements

- .106** The review captain should obtain the required representations submitted by/from the firm (see paragraph .05(f))for the current review. The review captain ~~and~~ should also obtain the firm's prior peer review report, the letter of response, if applicable, and the letter accepting those documents, ~~all from the reviewed firm~~. The review captain should also obtain the prior FFC forms (from the administering entity if the review captain's firm did not perform the prior review), if applicable, and the firm's representation letter from the firm or administering entity.
- .109** An Engagement Review does not include a review of other documentation prepared on the engagements submitted for review (other than the documentation referred to in [paragraphs .107-.108](#)), tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a System Review (see interpretations). Accordingly, an Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice. The review captain's report does indicate, however, whether anything came to the review captain's attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects (see interpretations). The review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (see interpretations).

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

- .113** A matter is documented on an MFC form. If the matter, after further evaluation, gets elevated to a finding, but not a deficiency or significant deficiency, it is documented on a FFC form. The FFC form is a standalone document that includes the ~~reviewer's recommendation and the~~ reviewed firm's response regarding actions planned or taken and the timing of those actions by the firm. MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm's FFC form responses for appropriateness and responsiveness (see [paragraphs .141-.145](#)). If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is communicated in the report itself, ~~along with the reviewer's recommendation~~. The firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm, which is also evaluated for appropriateness and responsiveness (see [paragraphs .139-.140](#)).

### Communication Requirements for Closing Meeting and Exit Conference

- .115** Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the review captain should communicate his or her conclusions to the firm at a closing meeting. The closing meeting is normally held via teleconference and may also be attended by

representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities. The review captain should discuss the following during the closing meeting:

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report to be issued.
- b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

An exit conference will be held after the firm has responded to the MFC form(s), FFC form(s), and deficiencies or significant deficiencies in the report and the review captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and is normally held via teleconference. Accordingly, except in rare circumstances that should be explained to the firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The exit conference is normally held via teleconference and should occur after allowing the firm sufficient time to respond to MFC form(s), FFC form(s), deficiencies or significant deficiencies discussed at the closing meeting, if applicable. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the review captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The review captain should discuss the following during the exit conference:

- a. Final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFCs, FFCs, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review captain should also discuss with the firm the implications of these steps on the acceptance and completion of the peer review and the firm's enrollment in the program.
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

A firm that has an Engagement Review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing. The review captain will contact the



~~firm, before issuing the final peer review report, to resolve questions raised during the peer review and to complete the MFC, DMFC, and FFC forms as applicable. In addition to discussing deficiencies or significant deficiencies and recommendations to be included in a report with a peer review rating of *pass with deficiencies* or *fail*, ordinarily, these should be discussed, along with the content of the letter of response, and agreed upon with the firm prior to the issuance of the final written report. The review captain should also communicate, if applicable, that the firm may be required to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report or (2) complete an implementation plan to address the findings noted on the FFC form(s). The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program. This is also the appropriate opportunity for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).~~

## **Addressing Disagreements Between the Reviewer and the Reviewed Firm**

- .116** Disagreements may arise on the resolution of various issues. For instance, there could be a disagreement on the appropriate approach to performing or reporting in conformity with applicable professional standards, or the review team might not believe that the actions planned or taken by the firm, if any, are appropriate (for example, if the reviewed firm believes that it can continue to support a previously issued report and the review team continues to believe that there may be a failure to reach appropriate conclusions in the application of professional standards). Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and that each party has the right to challenge each other on an issue. Nevertheless, a disagreement on the resolution of an issue may persist in some circumstances. The reviewed firm and reviewer should be aware that they may consult with their administering entity and, if necessary, request that the administering entity's peer review committee resolve the disagreement. If the administering entity's full peer review committee is unable to resolve the disagreement, the administering entity may refer unresolved issues to the board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists or whether the reviewed firm or review team is not cooperating in order to refer the issue to the board.

## **Reporting on Engagement Reviews**

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

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

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

any deficiencies, ~~or significant deficiencies, or recommendations~~. In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.

## Reporting on Engagement Reviews

### General

- .120 In an Engagement Review, the review captain should furnish the reviewed firm with a written report within 30 days of the ~~review of engagements~~exit conference date or by the firm's peer review due date, whichever is earlier. A report on a review performed by a firm ~~is to~~should be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms ~~is to~~should be issued on the letterhead of the firm of the review captain performing the review. Other reports are issued on the letterhead of the administering entity. The report in an Engagement Review ordinarily should be dated as of the date of the ~~completion of the peer review procedure~~exit conference. See interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity.

### *Illustrations of Reports in an Engagement Review*

- .121 The standard form for a report with a peer review rating of *pass* is illustrated in [appendix M](#), "Illustration of a Report with a Peer Review Rating of *Pass* in an Engagement Review." Illustrations of reports with a peer review rating of *pass with deficiencies* and *fail* are presented in [appendixes N](#), "Illustration of a Report with a Peer Review Rating of *Pass with Deficiencies* in an Engagement Review," and [P](#), "Illustration of a Report with a Peer Review Rating of *Fail* in an Engagement Review," respectively. Additional paragraphs included for scope limitations follow the illustrations for System Reviews with scope limitations (see [appendixes D](#), [G](#), and [K](#)).
- .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 on the Firm's Conformity With Professional Standards on Engagements Reviewed, if applicable.
    - d. Scope Limitation, if applicable.
    - e. Conclusion.
  - ~~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 as described in the sStandards can be found on the AICPA website

where the Standards are summarized.

- ~~e. Include a URL to the AICPA website where the standards are located.~~
- f. 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).~~ and for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, where appropriate, and for remediating weaknesses in its system of quality control, if any.
- g. 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. State that an Engagement Review does not include reviewing the firm's system of quality control and compliance therewith and, accordingly, the reviewer~~s~~ expresses 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. 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 conclusion, as appropriate, to address the scope limitation.
- j. Identify the different peer review ratings that the firm could receive.
- k. 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 paragraph, t~~hat 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. In a report with a peer review rating of *pass with deficiencies*,<sup>3</sup> state:
- ~~That except for~~That as a result of the deficiencies previously described, ~~nothing came to the review captain's attention that caused~~ the review captain ~~to~~ believes that at least one but not all of the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.

<sup>3</sup> 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.

- ~~At the end of the last paragraph, t~~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. 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 all 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 paragraph, t~~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.~~
- n. 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 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.

### **Firm Responses in an Engagement Review and Related Review Captain Considerations**

.1263 ~~The firm should discuss matters, findings, deficiencies, and significant deficiencies with the review captain. If, after a discussion with the review captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter and follow the guidance in paragraph .116 to resolve the disagreement. (see paragraph .116). If the reviewed firm still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~

.1254 ~~The reviewed firm should respond to all matters communicated on an MFC form, findings and related recommendations not rising to the level of a deficiency or significant deficiency~~

on the related FFC form, and deficiencies or significant deficiencies communicated in the peer review reports. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations). The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the review captain as soon as practicable to allow the review captain sufficient time to assess the firm's response prior to the exit conference.

~~.123~~**125** ~~In an Engagement Review, if the firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of findings, deficiencies, and significant deficiencies and to appropriately respond (see interpretations). The reviewed firm should respond in writing address the firm's actions taken or planned to remediate the findings, to the deficiencies, or significant deficiencies and related recommendations identified in the report, including timing of the remediation and additional procedures to ensure the finding, deficiency, or significant deficiency is not repeated in the future. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the review captain or by the firm's peer review due date, whichever date is earlier. Prior to submitting the letter of response to the administering entity, the reviewed firm should submit the response to the review captain for review, evaluation, and comment (see interpretations).~~

**126** The review captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the firm's response should be discussed during the exit conference. The firm's letter of response should be finalized and dated as of the exit conference date and provided to the review captain. The review captain should include the firm's letter of response with his or her report and working papers submitted to the administering entity (see interpretations).

~~.124~~ ~~If the firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.~~

~~.125~~ ~~The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see interpretations).~~

~~.126 If, after a discussion with the review captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (see paragraph .116). If the reviewed firm still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~

.127 Illustrations of letters of responses by a reviewed firm to reports with a peer review rating of *pass with deficiencies* and *fail* are included in [appendixes O](#), “Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in an Engagement Review,” and [Q](#), “Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in an Engagement Review.”

## Accepting System and Engagement Reviews

.139 In deciding on the need for and nature of any corrective actions, the committee should consider the nature and significance (and for System Reviews, the systemic causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole) of the deficiencies or significant deficiencies. It should evaluate whether the recommendations of the review team appear to address those deficiencies or significant deficiencies adequately and whether the reviewed firm’s responses to those recommendations actions taken or planned to remediate deficiencies in the system of quality control and nonconforming engagements, if applicable, appear comprehensive, genuine, and feasible.

## Cooperating in a Peer Review

.142 In deciding on the need for and nature of any implementation plan in addition to, or in affirmation of, that described by the firm in its response on the FFC form, the committee should consider the nature and significance (and for System Reviews, the systemic causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole) of the findings. It should evaluate whether the recommendations of the review team appear to address those findings adequately and whether the reviewed firm’s responses to those recommendations actions taken or planned to remediate nonconforming engagements and systemic findings appear comprehensive, genuine, and feasible.

## Performing and Reporting on Reviews of Quality Control Materials (QCM)

### Procedures for Planning and Performing QCM Reviews

#### *Planning Considerations*

.169 The QCM reviewer should obtain the prior QCM report, the letter of response (if applicable), and the acceptance letter, from the provider. The QCM reviewer should also obtain the prior FFC forms (if applicable), and the provider’s representation letter from the provider or National PRC. The QCM reviewer should consider whether the issues



discussed in those documents require additional emphasis in the current review, and should evaluate the provider's performance of the actions noted in response to the prior report. review letter of response and FFC forms, if applicable.

## *Performing Tests of the Materials*

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

**.176** For all of the materials tested, the QCM review team should assess whether or not the materials are reliable aids. This includes evaluating whether the materials can assist users in conforming with all those components which are integral to the professional standards that the materials purport to encompass. The QCM review team performs this evaluation by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate (see interpretations).

**.178** Determining the relative importance of matters noted during the QCM review, individually or combined with others, requires professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow are intended to assist in aggregating and evaluating the QCM review results, concluding on them, and determining the nature of the QCM review report to issue:

- a. A *matter* is noted as a result of
  - i. the QCM reviewer's evaluation of the design of and compliance with the provider's system of quality control. Matters can be one or more "no" answers to questions in QCM review questionnaire(s) that a QCM reviewer concludes warrants further consideration in the evaluation of a provider's system of quality control.
  - ii. the QCM reviewer's evaluation of whether the materials submitted for review are reliable aids. Matters can arise from either the QCM reviewer's comments based on tests of the materials, or one or more "no" answers to questions in QCM review questionnaire(s) that the QCM reviewer concludes warrants further consideration by the provider in the evaluation of the materials.

A matter is documented on a MFC form.

- b. A *finding* is one or more matters that result from
  - i. a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop or maintain reliable aids, or
  - ii. the QCM reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass.

A QCM reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the QCM reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a FFC form.

- c. A *deficiency* is one or more findings that

- i. the QCM reviewer has concluded, due to the nature, systemic causes, pattern, or pervasiveness, could create a situation in which the provider would not have reasonable assurance of developing or maintaining reliable aids, or
- ii. affects the reliability of one or more of the materials tested, such that one or more of the materials do not encompass the components which are integral to the professional standards that the materials purport to encompass.

This includes the relative importance of the deficiency to either the provider's system of quality control taken as a whole, or any of the materials tested (individually or collectively). It is not a significant deficiency if the QCM reviewer has concluded that except for the deficiency or deficiencies the provider has reasonable assurance of developing and maintaining reliable aids or that the nature of the deficiency or deficiencies is limited to a small number of the total materials reviewed. Such deficiencies are communicated in a report with a QCM review rating of *pass with deficiencies*.

- d. A *significant deficiency* is one or more deficiencies that the QCM reviewer has concluded results from a condition in the provider's system of quality control when the system taken as a whole does not provide reasonable assurance of developing or maintaining reliable aids, and it has affected the reliability of one or more of the materials reviewed. Such deficiencies are communicated in a report with a QCM rating of *fail*.

### **Aggregating and Evaluating Matters in the Provider's System**

- .179 The QCM review team must aggregate matters noted during the review of the provider's system of quality control to develop and maintain the materials in order to conclude on the opinion of the provider's system. This entails determining whether any matters noted were the result of the design of the provider's system of quality control or the failure of its personnel to comply with the provider's quality control policies and procedures. The QCM review team should consider their relative importance to both the provider's system of quality control as a whole and the impact on the materials (individually and collectively), and their nature, systemic causes, pattern, and pervasiveness, to determine the impact to the QCM report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.

### ***Design Matters***

- .183 There may be circumstances in which the QCM reviewer finds few findings in the materials developed and maintained by the provider, yet he or she still concludes that the design of the provider's system of quality control needs to be improved. For example, a provider that has a rapidly growing customer base may not have appropriately revised its policies and procedures to solicit user feedback. However, this type of finding may not result in less than reasonable assurance of developing or maintaining reliable aids. The QCM reviewer should exercise judgment in determining whether this matter should be addressed in an n



FFC as a finding ~~rather than~~ result in a report with a QCM review rating of *pass with deficiencies* or *fail*.

### ***Compliance Matters***

- .185 In assessing whether the degree of compliance was adequate to provide the required assurance, the QCM review team should consider the nature, systemic causes, pattern, and pervasiveness of the instances of noncompliance noted and their relative importance to the provider's system of quality control as a whole, as well as their importance in the specific circumstances in which they were observed. As with the evaluation of design matters, compliance matters also need to be evaluated in the context of the provider's organizational structure, the nature of its practice, the number of users, and so on.

### **Reporting on QCM Reviews**

#### ***General***

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

#### ***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 in the Provider's System of Quality Control and Resultant Materials, 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.

~~e.f.~~ State that the nature, objectives, scope, limitations of, and procedures performed in a Quality Control Materials QCM review are as described in the Standards can be found on the AICPA website where the Standards are summarized.

~~e.~~ Include a URL reference to the AICPA website where the standards are located.

~~f.g.~~ 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 and for evaluating actions to promptly remediate materials not deemed as reliable aids, where appropriate, and for remediating weaknesses in its system of quality control, if any.

~~g.h.~~ 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.j.~~ 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.k.~~ Identify the different peer review ratings that the provider could receive.

~~k.l.~~ 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~~ provider has received a peer review rating of pass.
- ~~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 review rating of pass with deficiencies:<sup>4</sup>

- 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

<sup>4</sup> 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.

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~~ provider has received a review rating of pass with deficiencies.

~~m-n.~~ 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.

o. 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.

## **Provider Responses on QCM Reviews and Related QCM Reviewer Considerations**

.1958 ~~The provider should discuss matters, findings, deficiencies, and significant deficiencies with the QCM reviewer. If, after a discussion with the QCM reviewer, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact the National PRC for assistance in the matter and follow the guidance in paragraph .93 to resolve the disagreement. (see paragraph .93). If the provider still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~

.1967 ~~The provider should also respond to all matters communicated on an MFC form, findings communicated on an ~~on the~~ FFC form and deficiencies or significant deficiencies communicated in the QCM report. s, if any are developed, to findings and related recommendations. These responses should describe the plan (including timing) the provider has implemented or will implement with respect to each finding. They should be submitted to the QCM reviewer no later than two weeks after the exit conference or by the review's due date, whichever is earlier. FFC forms are submitted by the QCM reviewer with the applicable working papers to the National PRC. The provider's draft response to deficiencies or significant deficiencies should be communicated in a letter of response~~

addressed to the National PRC. The provider's responses should be provided to the QCM reviewer as soon as practicable to allow the QCM reviewer sufficient time to assess the firm's response prior to the exit conference.

~~.1975~~ If the provider receives an FFC form or a report with a review rating of *pass with deficiencies* or *fail*, it is the provider's responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. The provider should address the following in its response with respect to each finding, deficiency and significant deficiency: then the provider should respond in writing to the deficiencies and significant deficiencies and related recommendations identified in the report, if applicable. The letter of response should be addressed to the National PRC and should describe the action(s) planned (including timing) or taken by the provider with respect to each deficiency in the report. If the provider disagrees with one or more of the deficiencies or significant deficiencies, its response should describe the reasons for such disagreement. In the event that a material error or omission in the materials is uncovered by the QCM review team, the response also should describe the provider's plan for notifying known users of that error or omission. The provider should submit the letter of response for review and comment to the QCM reviewer prior to submitting the response to the National PRC.

a. Materials that have an error or omission, including the following:

- The provider's actions taken or planned to remediate the error or omission identified on the FFC form or in the report, including the provider's plan for notifying known users of the materials.
- The provider's actions taken or planned to remediate findings and deficiencies in the provider's system of quality control

b. Systemic issues unrelated to materials that have an error or omission:

- The provider's actions taken or planned to remediate findings and deficiencies in the provider's system of quality control

c. Timing of the remediation

~~.198~~ The QCM reviewer should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the provider's response should be discussed during the exit conference. The provider's letter of response should be finalized and dated as of the exit conference date and provided to the QCM reviewer. The QCM reviewer should include the provider's letter of response with his or her report and working papers submitted to the National PRC.

~~.196~~ The provider should submit a copy of the report and its letter of response to the National PRC within 30 days of the date it received the report or by the provider's review due date, whichever date is earlier. Prior to submitting the response to the National PRC, the provider should submit the response to the QCM reviewer for review, evaluation, and comment. If the provider receives a report with a review rating of *pass*, a letter of response is not applicable, and the provider does not submit a copy of the report to the National PRC.

~~.197~~ The provider should also respond on the FFC forms, if any are developed, to findings and related recommendations. These responses should describe the plan (including timing) the

~~provider has implemented or will implement with respect to each finding. They should be submitted to the QCM reviewer no later than two weeks after the exit conference or by the review's due date, whichever is earlier. FFC forms are submitted by the QCM reviewer with the applicable working papers to the National PRC.~~

~~.198 If, after a discussion with the QCM reviewer, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact the National PRC for assistance in the matter (see paragraph .93). If the provider still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~

## Appendix A

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

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(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. An accounting and auditing practice for the purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards. Engagements covered in the scope of the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection. A firm is not required to enroll in the AICPA Peer Review Program if its only level of service is performing preparation engagements under SSARS, however, if it elects to enroll due to licensing or other requirements, it is required to have a peer review under these Standards.~~ 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. Quality Control Materials (QCM) Reviews focus on the system of quality control of a provider of QCM to CPA firms. As noted in paragraphs 4 and 157, a A further description of System ~~and~~ Engagement and QCM 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 for design of a system of quality control include but are not limited to the Statements on Quality Control Standards (SQCSs) 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<sup>®</sup> and and SOC 2<sup>®</sup> 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 SASs, SSARs, SSAEs, Government Auditing Standards, and PCAOB standards; it and does not include the firm's SEC issuer practice engagements subject to PCAOB permanent inspection, 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 SQCSs.
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. 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.
11. 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.
12. If a deficiency or significant deficiency included in the peer review report is associated with an engagement that was not performed and reported on in conformity with applicable professional standards in all material respects ("nonconforming") in a must select industry or practice area or is industry specific, the report will identify the industry or practice area. However, because the purpose of a System Review is to report on the firm's system of quality control, the peer review report might not describe every engagement that was deemed nonconforming.

13. The firm is responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any. 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 deficiencies and nonconforming engagements were remediated.

~~13.~~14. 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

~~14.~~15. 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.

~~15.~~16. 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.

~~16.~~17. 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.



~~17.18.~~ 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.

~~18.19.~~ When the CPA firm receives a report with a peer review rating of *pass*, the peer reviewer has concluded that nothing came to his or her attention that the CPA firm's work was not performed and 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.

~~19.20.~~ If a deficiency or significant deficiency is industry specific, the report will identify the industry.

~~21.~~ The firm is responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

~~20.22.~~ 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

~~21.23.~~ 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).

~~22.24.~~ 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.

23-25. 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.

24-26. 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.

25-27. 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.

28. The provider is responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any. The provider's response is evaluated to determine if it is appropriate and whether lack of response is indicative of other weaknesses in the providers system of quality control.

26.29. 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.

## Appendix B

### Considerations and Illustrations of Firm Representations

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1. The team captain or review captain obtains written representations from management of the reviewed firm to describe matters significant to the peer review in order to assist in the planning and performance of and the reporting on the peer review.

2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Firm management's refusal to furnish written representations to the team captain or review captain constitutes a failure to cooperate with the reviewer and thus the administering entity and with the AICPA Peer Review Board peer review program, and the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated (see interpretations). If termination occurs, it may result in an investigation of a possible violation by an appropriate regulatory, monitoring, and enforcement body.

3. On System Reviews, the written representations should be addressed to the team captain (for example, "To John Smith, CPA"). Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review

report that may require an adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report.

~~1. The written representations should be signed by those members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the team captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.~~

4. On Engagement Reviews, the representations should be addressed to the review captain (for example, "To John Smith, CPA" or on committee-appointed review team reviews where appropriate, it may be addressed "To the Review Captain") and dated the same date that the firm submits the list of engagements to the reviewer or the administering entity as the peer review report.

5. The written representations should be signed by ~~those individual~~ members of management whom the ~~team captain, review captain~~ reviewer or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (even though an Engagement Review). Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control ~~(this should not be a firm signature).~~

6. If a representation made by management is contradicted by other information obtained, the ~~team captain or review captain~~ reviewer should investigate the circumstances and consider the reliability of the representations made and any effect on the report.

~~7. In connection with System and Engagement Reviews, The firm is required to make specific representations, as noted in the text that follows. ~~should relate to the following matters, although~~ †The firm is not prohibited from making additional representations, and ~~the firm~~ may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the team captain or review captain (see interpretations).‡ The team captain or review captain may request additional representations based on the circumstances and nature of the peer review.~~

8. As of the date of the representation letter and for the peer review year, the firm should do the following:

a. Compliance with Rules and Regulations

- Acknowledge responsibility for complying with the rules and regulations of state boards of accountancy and other regulations
- Confirm, to the best of its knowledge and belief, that there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies,

including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

- If there are known situations of noncompliance, the confirmation should first summarize Situations or a summary of the situation(s) where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance (see interpretations). The confirmation should be written such that other than the summarized situation(s), to the best of its knowledge and belief, there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

b. Completeness of the eEngagement Listing

- State the list of engagements provided to the reviewer:
    - provided to the reviewerIncluded all engagements with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued
    - , including, but was not limited to, inclusion of all engagements performed, whether issued or not, under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements, as applicable, and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection.
    - For Engagement Reviews, state that the firm does not perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to PCAOB permanent inspection
    - Acknowledge that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body
- c. Firm Remediation of Nonconforming Engagements, if applicable
- Confirm it will remediate nonconforming engagements as stated by the firm on the Matter For Further Consideration Form, Finding for Further Consideration Form, or Letter of Response, as applicable.

d. Communications or summary of communications from regulatory, monitoring, or enforcement bodies

- e.—State that the firm has discussed Discussions of significant issues from reports or and communications, or both (see interpretations), from other practice monitoring or external inspection programs, such as the PCAOB’s regulatory, monitoring and enforcement bodies (see interpretations), with the team captain or review captain, if applicable.
- State that the firm has provided the team captain or review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
- relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within the three years preceding the firm’s current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review (see interpretations). In addition, the reviewer may inquire if there are any other issues that may affect the firm’s practice.
- Confirm, to the best of its knowledge and belief, that there are no known restrictions or limitations on the firm’s or its personnel’s ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end OR
- e.—Include a summary of the Rrestrictions or limitations on the firm’s or its personnel’s ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

~~Completeness of the engagement listing provided to the reviewer, including, but not limited to, inclusion of all engagements performed, whether issued or not, under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements, as applicable, and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed-upon procedures. Financial forecasts or projections and agreed-upon procedures with report dates during the year under review would be subject to selection.~~

~~e.—Discussions of significant issues from reports or communications, or both (see interpretations), from other practice monitoring or external inspection programs, such as the PCAOB’s (see interpretations), with the team captain.~~

fe. Quality Control Materials

- State that it understands the intended uses and limitations of the quality control materials it has developed or adopted.



- For System Reviews, state that it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to Accepting responsibility for understanding, tailoring, and augmenting the quality control materials that the firm develops or adopts for use in its accounting and auditing practice.
- For Engagement Reviews, state it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting practice.

g. Other Representations

- Include Other representations obtained requested by the team captain or review captain will depend based on the circumstances and nature of the peer review.

~~— 2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Firm management’s refusal to furnish written representations to the team captain or review captain constitutes a failure to cooperate with the reviewer and thus the administering entity and with the AICPA Peer Review Board, and the firm would be subject to fair procedures that could result in the firm’s enrollment in the program being terminated (see interpretations).~~

~~— 3. On System Reviews, the written representations should be addressed to the team captain. Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report. The written representations should be signed by those members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner or manager in charge of the firm’s system of quality control. If a representation made by management is contradicted by other information obtained, the team captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.~~

~~— 4. On Engagement Reviews, the representations should be addressed to the review captain (for example, “To John Smith, CPA” or on committee-appointed review team reviews where appropriate, it may be addressed “To the Review Captain”) and dated the same date that the firm submits the list of engagements to the reviewer or the administering entity. The written representations should be signed by those members of management whom the reviewer or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (even though an Engagement Review). Such members of management normally include the managing partner and partner or manager in charge of the firm’s system of quality control. If a representation made by management is contradicted by other information obtained, the reviewer should investigate the circumstances and consider the reliability of the representations made and any effect on the report.~~

## Illustration of a Representation Letter That ~~has~~ Has No Significant Matters to Report to the Team Captain ~~or Review Captain~~ for a System Review

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

October 31, 20XX

To [Name of the Team Captain] ~~or Review Captain~~

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have ~~also~~ provided a list of all engagements to the ~~[team captain, review captain, or administering entity]~~ with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued ~~or not~~. This list included, but was not limited to, all 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 SOC 2 engagements), as applicable. ~~For financial forecasts or projections and agreed upon procedures, the list included those engagements with report dates during the year under review.~~ We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, will may result in referral of the matter an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct.

We have also discussed the content of our PCAOB inspection report significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the [team captain or review captain], (if applicable). We have also provided the ~~[team captain or review captain]~~ with any other information requested, including communications or summaries of communications from ~~by~~ regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of ~~its an~~ accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, to the best of our knowledge and belief, in addition, that there are



no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance ~~which-that~~ is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects. ~~We have also discussed the content of our PCAOB inspection report with the [team captain or review captain] (if applicable).~~

Sincerely,

[Signature(s)]<sup>5</sup>

**Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Team Captain ~~a Matter of Noncompliance With a Regulatory Requirement for a System Review~~**

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

October 31, 20XX

To [Name of the Team Captain]; ~~or Review Captain~~

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

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<sup>5</sup> Members of management as noted in section ~~3-5~~ of [appendix B](#), "Considerations and Illustrations of Firm Representations."

We have ~~also~~ provided a list of all engagements to the ~~{team captain, review captain, or administering entity}~~ with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued ~~or not~~. This list included, but was not limited to, all 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 SOC 2 engagements), as applicable. ~~For financial forecasts or projections and agreed upon procedures, the list included those engagements with report dates during the year under review.~~ We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, will may result in referral of the matter an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct.

We confirm that we will implement the remedial plans for nonconforming engagements stated in our response to Finding for Further Consideration Forms 1 and 3.

~~We have also discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies the content of our Public Company Accounting Oversight Board inspection report with the team captain, (if applicable).~~ We have also provided the ~~{team captain}~~ with any other information requested, including communications or summaries of communications from by regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an its accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. ~~In addition, Other than the single partner restriction to perform employee benefit plans as determined by the AICPA Professional Ethics Division, we confirm, that to the best of our knowledge and belief,~~ there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance ~~which that~~ is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects. ~~We have also discussed the content of our Public Company Accounting Oversight Board inspection report with the team captain (if applicable).~~

Sincerely,

[Signature(s)]<sup>6</sup>

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<sup>6</sup> Members of management as noted in section 3.5 of [appendix B](#), "Considerations and Illustrations of Firm Representations."

## Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review

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

October 31, 20XX

To [Name of Review Captain]:

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the review captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations (Service Organizations Control [SOC] 1 and SOC 2 engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to

practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

Sincerely,

[Signature(s)]<sup>7</sup>

**Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Review Captain for an Engagement Review**

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

October 31, 20XX

To **[Name of Review Captain]**:

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

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the review captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations (Service Organizations Control [SOC] 1 and SOC 2 engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the

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<sup>7</sup> Members of management as noted in section 5 of appendix B, "Considerations and Illustrations of Firm Representations."

Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We confirm that we will implement the remedial plans for nonconforming engagements stated in our letter of response to the peer review report.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. Other than the single partner restriction to perform reviews under Statements on Standards for Accounting and Review Services (SSARS) as determined by the AICPA Professional Ethics Division, we confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,

[Signature(s)]<sup>8</sup>

## **Appendix C**

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

**.209**

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

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<sup>8</sup> Members of management as noted in section 5 of appendix B, "Considerations and Illustrations of Firm Representations."

## **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*]<sup>9</sup>

We<sup>10</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>11</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

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

~~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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

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<sup>9</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>10</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

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

## Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of 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](http://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 SOC 2 engagements].)<sup>12</sup>

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

## Opinion

In our opinion, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>13</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. XYZ & Co. has received a peer review rating of *pass*.

Smith, Jones and Associates

[Name of team captain's firm]

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<sup>12</sup> 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.

<sup>13</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."



## Appendix D

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

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#### 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*]<sup>14</sup>

We<sup>15</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>16</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer

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<sup>14</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>15</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>16</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."



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](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

~~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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **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](http://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 SOC 2 engagements]).<sup>17</sup>

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<sup>17</sup> 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.

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

### **Scope Limitation<sup>18</sup>**

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

### **Opinion**

In our opinion, except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review divested engagements, as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>19</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. XYZ & Co. has received a peer review rating of *pass (with a scope limitation)*.

Smith, Jones and Associates

[Name of team captain's firm]

## **Appendix E**

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

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<sup>18</sup> The scope limitation provided is an example provided for illustrative purposes only.

<sup>19</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

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*]<sup>20</sup>

We<sup>21</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>22</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

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

~~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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or

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<sup>20</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

<sup>21</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>22</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **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](http://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 SOC 2 engagements]).<sup>23</sup>

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

### **Deficiencies<sup>24</sup> Identified in the Firm's System of Quality Control**

We noted the following deficiencies<sup>25</sup> 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~~

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<sup>23</sup> 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.

<sup>24</sup> Should be tailored to indicate a single deficiency, when applicable.

<sup>25</sup> The deficiencies provided are examples for illustrative purposes only.

should consider using the practice aids in the reference manuals available in the firm's library in order to accomplish this step.

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

~~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.

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

~~**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.~~

### **Opinion**

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>26</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass with deficiencies*.

Smith, Jones and Associates

[Name of team captain’s firm]

## **Appendix F**

### **Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review**

.212

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement.~~ For more information related

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<sup>26</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add “applicable to engagements not subject to PCAOB permanent inspection.”

to disagreements, see [paragraph .93](#) of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see [paragraphs .136-.140](#), “Accepting System and Engagement Reviews”) and should be tailored to address the firm’s remediation plans for the deficiencies described in its peer review report. The letter of response should be submitted to the team captain for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

[Reviewed firm’s letterhead]

~~September 2~~August 31, 20XX

[Addressed to the peer review committee of the administering entity]<sup>27</sup>

Ladies and Gentlemen:

This letter represents our<sup>28</sup> response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The ~~corrective-remedial~~ actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

~~1.<sup>29</sup>—The firm modified its quality control policies and procedures to require the use of practice aids to document procedures performed on review and compilation engagements, especially for accounts and notes payable. Partners were instructed to ensure that these aids were being utilized appropriately when reviewing engagements. This policy was discussed in a recent training session held in connection with a recent firm wide staff meeting.~~

~~21.<sup>30</sup> The firm also modified its quality control policies and procedures to include monitoring of firm personnel’s compliance with regulatory and organization membership requirements. The importance of meeting these CPE requirements was discussed in a recent training session held in connection with a recent firm wide staff meeting. Additionally, the training session included sufficient Yellow Book CPE such that all firm personnel have met the regulatory requirements. The impact to the Yellow Book audits for failure to take sufficient CPE timely is currently being discussed with the Government Accountability Office (GAO) and the firm will remediate as necessary based on that discussion.~~ place a greater emphasis on partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her

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<sup>27</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>28</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

~~<sup>29</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.~~

~~<sup>30</sup> The numbering of responses, to coincide with the numbered comments in the report is optional.~~



~~timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in the training session previously referred.~~

32. In addition, at that training session, the importance of proper use of the firm's ~~reporting and disclosure~~ checklists appropriate to the industry of the engagement being performed was discussed. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on industry specific ~~disclosure~~ issues. The omitted procedures have been performed.

~~As previously mentioned, t~~These ~~corrective remedial~~ actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings of the review.

Sincerely,

[Name of Firm]<sup>31</sup>

## Appendix G

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

.213

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

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<sup>31</sup> Signed by an authorized partner of the firm.

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*]<sup>32</sup>

We<sup>33</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>34</sup> in effect for the year ended June 30, 20XX. Except as subsequently described, our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

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

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

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<sup>32</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee

<sup>33</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>34</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## **Firm's Responsibility**

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

## **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](http://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 Organizations Control (SOC) 1 and SOC 2 engagements]).<sup>35</sup>

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

~~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.~~

## **Deficiencies<sup>36</sup> Identified in the Firm's System of Quality Control**

We noted the following deficiencies<sup>37</sup> during our review:

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<sup>35</sup> 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.

<sup>36</sup> Should be tailored to indicate a single deficiency, when applicable.

<sup>37</sup> The deficiencies provided are examples for illustrative purposes only.

- ~~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 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.~~

- ~~21. **Deficiency**—**The** firm’s quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with applicable regulatory requirements. ~~As previously noted in the following text, in performing our review, the firm notified us that we would be~~ **were** unable to select ~~its—the firm’s~~ 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**<sup>38</sup>

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 described and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review the engagement as previously described, the system of quality

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<sup>38</sup> The scope limitation provided is an example provided for illustrative purposes only.

control for the accounting and auditing practice of XYZ & Co.<sup>39</sup> in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *pass with deficiencies (with a scope limitation)*.

Smith, Jones and Associates

[Name of team captain's firm]

## Appendix H

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review

.214

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For more information related to disagreements, see [paragraph .93](#) of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see [paragraphs .136–.140](#), “Accepting System and Engagement Reviews”) ~~and should be tailored to address the firm's remediation plans for the deficiencies described in its peer review report.~~ The letter of response should be submitted to the team captain for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

[Reviewed firm's letterhead]

~~November–October 30~~31, 20XX

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<sup>39</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

[Addressed to the peer review committee of the administering entity]<sup>40</sup>

Ladies and Gentlemen:

This letter represents our<sup>41</sup> response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX.

- 1.<sup>42</sup> ~~The firm also modified its quality control policies and procedures to place a greater emphasis on partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in a recent training session held in conjunction with a recent firm wide staff meeting.~~
2. Due to circumstances that we deemed appropriate, we notified the peer reviewer that he would be unable to select our only audit subject to *Government Auditing Standards* in the peer review. This was an initial engagement and an engagement performed under *Government Auditing Standards*, is the only governmental audit the firm has performed, so there were no previous audits for the reviewer to select. ~~We suggested selecting an audit engagement in a different industry.~~ We have considered the consequences of noncompliance related to this matter. We understand that until our firm's most recently completed peer review includes selection of an engagement performed under *Government Auditing Standards* our audit reports for such engagements will need to include an exception regarding our lack of compliance with peer review requirements.

Sincerely,

[Name of Firm]<sup>43</sup>

## Appendix I

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

.215

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<sup>40</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>41</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>42</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

<sup>43</sup> Signed by an authorized partner of the firm.

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*]<sup>44</sup>

We<sup>45</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>46</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

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

~~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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or

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<sup>44</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>45</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>46</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."



reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **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](http://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 SOC 2 engagements]).<sup>47</sup>

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

### **Significant Deficiencies<sup>48</sup> Identified in the Firm's System of Quality Control**

We noted the following significant deficiencies<sup>49</sup> 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 support the audit opinions. The firm's quality control policies and procedures do not provide reasonable assurance that the firm will comply with applicable professional standards and will issue~~

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<sup>47</sup> 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 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.

<sup>48</sup> Should be tailored to indicate a single significant deficiency, when applicable.

<sup>49</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

reports that are appropriate in the circumstances, as a result of the following significant deficiencies:

- The firm lacks policies and procedures addressing new engagement acceptance to only undertake engagements for which it has the capabilities, resources, and professional competence to complete in accordance with applicable professional standards.
- The firm lacks policies and procedures addressing continuing professional education (CPE) to require its personnel to obtain relevant training to prepare for engagements in new industries or service areas.
- Firm leadership has not implemented policies and procedures to provide clear, consistent, and frequent actions and messages from all levels of the firm's management that emphasize the firm's commitment to quality.

In our opinion, the significant deficiencies described previously contributed to an employee benefit plan audit that did not conform to professional standards in all material respects. During our review, we discovered that the firm had undertaken an employee benefit plan audit without performing appropriate acceptance procedures, including the engagement partner obtaining relevant CPE or otherwise obtaining sufficient knowledge to conduct the audit.

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's quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. The courses taken by firm personnel did not provide them with sufficient information about current developments in accounting and auditing matters. In our opinion, this led to firm personnel being unable to appropriately address recent pronouncements and new disclosure requirements; and failure to consider new auditing standards and other required communications. This contributed to audit engagements performed under *Government Auditing Standards*, and audits in other industries that did not conform to professional standards in all material respects.

~~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. The firm’s quality control policies and procedures regarding monitoring do not provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The firm’s quality control policies and procedures do not:~~

- ~~• Include an ongoing consideration and evaluation of the firm’s system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients’ financial statements for a selection of completed engagements~~
- ~~• Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility~~
- ~~• Assign the performance of monitoring the firm’s system of quality control to qualified individuals~~

~~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.~~

~~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, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>50</sup> in effect for the year ended June 30, 20XX, was not suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

Smith, Jones and Associates

[Name of team captain's firm]

## Appendix J

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in a System Review

.216

The purpose of a letter of response is to describe the actions the firm has taken or will take, including the timing of the planned actions, to prevent a recurrence of each of the significant deficiencies discussed in the report. If the reviewed firm disagrees with one or more of the significant deficiencies ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For more information related to disagreements, see [paragraph .93](#) of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see [paragraphs .136–.140](#), “Accepting System and Engagement Reviews”) ~~and should be tailored to address the firm's remediation plans for the significant deficiencies described in its peer review report.~~ The letter of response should be submitted to the team captain for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

~~November-October 3031~~, 20XX

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<sup>50</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

[Addressed to the peer review committee of the administering entity]<sup>51</sup>

Ladies and Gentlemen:

This letter represents our<sup>52</sup> response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The firm is committed to providing clear, consistent, and frequent actions and messages from all levels of the firm's management to emphasize the firm's commitment to quality. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control. All issues have been brought to the attention of personnel at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.

- <sup>53</sup> Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been reminded of their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements, and the quality of audit documentation will be a focus of the concurring partner's review. The firm modified its quality control policies and procedures to require the following:

- Use of practice aids to document procedures performed to assess competency for undertaking new engagements. The practice aid is designed to ensure that the firm 1) is competent to perform the engagement and has the capabilities, including time and resources, to do so, 2) can comply with legal and relevant ethical requirements, and 3) has considered the integrity of the client.
- Inclusion of a CPE plan for obtaining relevant training to prepare for engagements in new industries or service areas in the client acceptance file.

The firm has recalled the audit report for the employee benefit plan audit and has hired a third party to perform a preissuance review prior to reissuing our report.

- We have joined the AICPA Governmental Audit Quality Center and Employee Benefit Plan Audit Quality Center. The firm modified its quality control policies and procedures to require personnel that perform engagements in these specialized areas to attend at least eight hours of CPE annually in the specialized area. We are committed to promptly completing our evaluation of the audit engagements, including whether audited financial statements should be recalled and reissued to

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<sup>51</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>52</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>53</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

include the omitted disclosures. The omitted procedures will be performed and documentation will be added in a memo to the engagement files of the audit performed under *Government Auditing Standards* and the audits in other industries identified as not in conformity with professional standards.

~~The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits, development stage companies, and other industries that are similar to ours. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar.~~

3. The firm's system of quality control was modified to include monitoring procedures to provide it with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with all functional areas of the system and will perform annual inspections on a sample of engagements. We intend to hire a Quality Control Director who will be responsible for developing and implementing our monitoring and inspection procedures.~~We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use.~~
4. ~~At the staff meeting previously mentioned, the importance of proper use of the firm's reporting and disclosure checklist was discussed, including the use of checklists for specialized industries. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on disclosure issues.~~

The results of our peer review will be discussed in a firm-wide meeting to be held on November 22, 20XX, and an emphasis on quality will be reinforced with all engagement partners and their teams.~~The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely post-issuance review of engagements. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as previously mentioned) has been sought, and this individual will be available for consultation and guidance.~~

Sincerely,

[Name of Firm]<sup>54</sup>

## Appendix K

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<sup>54</sup> Signed by an authorized partner of the firm.

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

.217

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*]<sup>55</sup>

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<sup>55</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.



We<sup>56</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>57</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

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

~~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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **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](http://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

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<sup>56</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>57</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements]).<sup>58</sup>

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

~~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 Deficiencies<sup>59</sup> Identified in the Firm's System of Quality Control**

In addition, we noted the following significant deficiencies<sup>60</sup> 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 support the audit opinions. The firm's quality control policies and procedures provide reasonable assurance that the firm and its personnel will comply with relevant ethical requirements. The firm's quality control policies and procedures require that written independence representations be obtained annually from all partners and personnel and then be reviewed by a partner in the firm assigned overall responsibility for such matters. During our review, we noted that the responsible partner left the firm in the early part of the year and her responsibilities in this area had not been reassigned. In our opinion, this contributed to several of the firm's personnel failing to sign such a representation. Written independence representations were subsequently obtained but there were instances where the firm was not independent with respect to the~~

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<sup>58</sup> 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.

<sup>59</sup> Should be tailored to indicate a single significant deficiency, when applicable.

<sup>60</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

financial statements on which it reported, which caused the engagements to not conform to professional standards in all material respects.

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's policies and procedures regarding acceptance and continuance of clients are not complied with to provide it with reasonable assurance that its personnel are competent to perform the engagement and have the capabilities to do so. The firm accepted an audit in a specialized industry in which it had no experience or expertise and did not take steps to obtain competency prior to issuing the audit report. In our opinion, this contributed to an employee benefit plan audit that was not performed in accordance with professional standards in all material respects.

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. The firm's use of the standardized planning forms required by its quality control policies and procedures for engagement performance are not consistently complied with to provide reasonable assurance that audit engagements are performed in accordance with professional standards. Despite such forms including audit planning steps for considering preliminary judgments about materiality levels, fraud risk factors, planned assessed level of control risk, analytical review procedures, and conditions that may require an extension of or a modification of tests, we noted several engagements that lacked sufficient evidence of such considerations. In our opinion, this contributed to audits of employee benefit plans and engagements in other industries that did not conform to professional standards in all material respects.

~~**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.~~

~~**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**<sup>61</sup>

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

### **Opinion**

In our opinion, as a result of the significant deficiencies previously described, and any additional significant deficiencies that might have come to our attention had we been able to review engagements from the divested office as previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>62</sup> in effect for the year ended June 30, 20XX was not suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail (with a scope limitation)*.

Smith, Jones and Associates

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<sup>61</sup> The scope limitation provided is an example provided for illustrative purposes only.

<sup>62</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

[Name of team captain's firm]

## Appendix L

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* (With a Scope Limitation) in a System Review

.218

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each of the significant deficiencies discussed in the report. If the reviewed firm disagrees with one or more of the significant deficiencies, ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For more information related to disagreements, see [paragraph .93](#) of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see [paragraphs .136–.140](#), “Accepting System and Engagement Reviews”) ~~and should be tailored to address the firm's remediation plans for the significant deficiencies described in its peer review report.~~ The letter of response should be submitted to the team captain for review and comment prior to the ~~firm submitting the response to the administering entity~~exit conference.

~~November~~ October 3031, 20XX

[Addressed to the peer review committee of the administering entity]<sup>63</sup>

Ladies and Gentlemen:

This letter represents our<sup>64</sup> response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. ~~All issues have been brought to the attention of the personnel at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.~~

We notified our peer reviewer that he would be unable to review the engagements performed by one of our firm's four offices that divested from our firm during the peer

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<sup>63</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

<sup>64</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

review year. We have considered the consequences of this scope limitation on the results of our peer review.

- 1.<sup>65</sup> ~~The firm's monitoring procedures were modified to provide it with reasonable assurance that the firm's policies and procedures are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with relevant ethical considerations and perform annual testing of a sample of personnel independence confirmations. We have contacted our attorney, clients, and applicable regulatory bodies to discuss the impact of the independence violations and will remediate the engagements as required by professional standards. Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been reminded of their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements, and the quality of audit documentation will be a focus of the concurring partner's review.~~
2. The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits, ~~development stage companies, and other industries that are similar to ours.~~ We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar. We have also joined the AICPA Employee Benefit Plan Audit Quality Center. The omitted procedures will be performed and documentation will be added in a memo to the engagement file. We will engage one of the accounting firms to review the engagement working papers prior to finalizing the memo and to perform engagement quality control reviews of future employee benefit plan audits.
3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use. At our next staff meeting on November 22, 20XX, we will emphasize
4. ~~At the staff meeting previously mentioned, the importance of proper use of the firm's practice aids, reporting and disclosure checklist was discussed, including the use of checklists for specialized industries.~~ We will also discuss the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on the firm's expectations for performing and documenting audit planning considerations. ~~disclosure issues.~~

The firm is committed to strengthening its monitoring policies and procedures, ~~especially as they relate to a timely post-issuance review of engagements.~~ We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been

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<sup>65</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

assigned to a partner. Additionally, outside assistance (as previously mentioned) has been sought, and the these individuals will be available for consultation and guidance.

Sincerely,  
[Name of Firm]<sup>66</sup>

## Appendix M

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

.219

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](#), “Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review;” [G](#), “Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review;” and [K](#), “Illustration of a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review”).

*[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 Reviewed<sup>67</sup>**

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*]<sup>68</sup>

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<sup>66</sup> Signed by an authorized partner of the firm

<sup>67</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm’s Conformity With Professional Standards on an Engagement Reviewed.”

<sup>68</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.



We<sup>69</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>70</sup> issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

### **Firm's Responsibility**

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

### **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](http://www.aicpa.org/prsummary).~~

### **Conclusion**

Based on our review, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co.<sup>71</sup> issued with periods ending during the

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<sup>69</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>70</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

<sup>71</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

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*]

## Appendix N

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

.220

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 ([appendixes D](#), “Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review;” [G](#), “Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review;” and [K](#), “Illustration of a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review”).

[*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 Reviewed<sup>72</sup>**

September 30, 20XX

<sup>72</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed.”

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]<sup>73</sup>

We<sup>74</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>75</sup> issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

~~A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).~~

### **Firm's Responsibility**

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

### **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](http://www.aicpa.org/prsummary).~~

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<sup>73</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [or appropriate terminology] XYZ & Co. and the National Peer Review Committee.

<sup>74</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>75</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## Deficiencies<sup>76</sup> Identified on the Firm's Conformity With Professional Standards on Engagements Reviewed<sup>77</sup>

We noted the following deficiencies<sup>78</sup> 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. ~~when The 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.~~

### Conclusion

~~Based on our review, except for the deficiencies previously described, nothing came to our attention that caused us to believe that the~~ As a result of the deficiencies previously described, we concluded that at least one but not all of the engagements submitted for review by XYZ & Co.<sup>79</sup> issued with periods ending during the year ended June 30, 20XX,

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<sup>76</sup> Should be tailored to indicate a single deficiency, when applicable:

<sup>77</sup> Should be tailored to indicate a single engagement reviewed, when applicable:

<sup>78</sup> The deficiencies ~~and related recommendations~~ provided are examples ~~provided~~ for illustrative purposes only.

<sup>79</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

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*]

[*or*]

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

## Appendix O

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Pass With Deficiencies* in an Engagement Review

.221

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance ~~in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For additional guidance on disagreements, see [paragraph .116](#) of standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see [paragraphs .136–.140](#), “Accepting System and Engagement Reviews”) and should be tailored to address the firm's remediation plans for the deficiencies described in its peer review report. The letter of response should be submitted to the reviewer for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

~~October 31~~ September 30, 20XX

[*Addressed to the peer review committee of the administering entity*]<sup>80</sup>

Ladies and Gentlemen:

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<sup>80</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

This letter represents our<sup>81</sup>-response to the report on the Engagement Review of our firm's accounting practice for engagements submitted for review with periods ending during the year ended June 30, 20XX.

- 1.<sup>82</sup> ~~As recommended by the reviewer, t~~We have recalled and reissued the review report. The entire staff has participated in continuing professional education related to reporting and disclosures, with a particular focus on areas specific to the industries that we are engaged in. We will be performing a pre-issuance review by a partner not associated with the engagement to make sure that the accountant's report is appropriately modified when the financial statements depart from applicable professional standards.
2. We subsequently obtained a management representation letter and documented the matters covered in our inquiry and analytical procedures. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant's inquiry and analytical procedures, is included in the working papers.

We believe these actions address the matters noted by the reviewer.

Sincerely,

[Name of firm]<sup>83</sup>

## Appendix P

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

.222

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*.

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<sup>81</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>82</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

<sup>83</sup> Signed by an authorized partner of the firm.

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 ([appendixes D](#), “Illustration of a Report With a Peer Review Rating of Pass (With a Scope Limitation) in a System Review;” [G](#), “Illustration of a Report With a Peer Review Rating of Pass With Deficiencies (With a Scope Limitation) in a System Review;” and [K](#), “Illustration of a Report With a Peer Review Rating of Fail (With a Scope Limitation) in a System Review”).

*[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 Reviewed**<sup>84</sup>

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*]<sup>85</sup>

We<sup>86</sup> have reviewed selected accounting engagements of XYZ & Co. (the firm)<sup>87</sup> issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants ([Standards](#)).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an Engagement Review are as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

### **Firm’s Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or

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<sup>84</sup> The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to “Report on the Firm’s Conformity With Professional Standards on an Engagement Reviewed.”

<sup>85</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.

<sup>86</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>87</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."



reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **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](http://www.aicpa.org/prsummary).~~

### **Significant Deficiencies<sup>88</sup> Identified on the Firm's Conformity With Professional Standards on Engagements Reviewed<sup>89</sup>**

We noted the following significant deficiencies<sup>90</sup> 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.

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<sup>88</sup> Should be tailored to indicate a single significant deficiency, when applicable.

<sup>89</sup> Should be tailored to indicate a single engagement reviewed, when applicable.

<sup>90</sup> The deficiencies ~~and related recommendations~~ provided are examples ~~provided~~ for illustrative purposes only.

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.<sup>91</sup> 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.

~~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. During our review of the firm’s engagements to prepare financial statements, we noted the firm did not issue a disclaimer that made clear no assurance was provided on the financial statements and also did not indicate that no assurance was provided on each page of the financial statements.

~~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.~~

## Conclusion

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<sup>91</sup> The cash, tax, regulatory, and other bases of accounting that utilize a definite set of logical, reasonable criteria that are applied to all material items appearing in financial statements are commonly referred to as other comprehensive bases of accounting.

As a result of the deficiencies previously described, we ~~believe~~ concluded that all the engagements submitted for review by XYZ & Co.<sup>92</sup> issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co has received a peer review rating of *fail*.

Smith, Jones and Associates

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

*[or]*

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

## Appendix Q

### Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of *Fail* in an Engagement Review

.223

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each of the significant deficiencies. If the reviewed firm disagrees with one or more of the significant deficiencies ~~or recommendations~~ in the report, the reviewed firm should contact the administering entity for assistance. ~~If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement.~~ For additional guidance on disagreements, see [paragraph .116](#) of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see [paragraphs .136-.140](#), "Accepting System and Engagement Reviews") and should be tailored to address the firm's remediation plans for the significant deficiencies described in its peer review report. The letter of response should be submitted to the reviewer for review and comment prior to the ~~firm submitting the response to the administering entity~~ exit conference.

~~October 31~~ September 30, 20XX

*[Addressed to the peer review committee of the administering entity]*<sup>93</sup>

<sup>92</sup> The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

<sup>93</sup> The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.

Ladies and Gentlemen:

This letter represents our<sup>94</sup>-response to the report on the Engagement Review of our firm's accounting practice for engagements submitted for review with periods ending during the year ended June 30, 20XX.

<sup>95</sup> To prevent the recurrence of the deficiencies noted by the reviewer and to prevent other such deficiencies from occurring, we will review the professional standards related to the deficiencies and ensure that the professional standards will be complied with on all future engagements.

Specifically, we have strengthened the engagement review to ensure that management representation letters are obtained for all review engagements performed by the firm.

All personnel who work on accounting engagements will be participating in continuing professional education in disclosures and reporting by December 31, 20XX, to address the disclosure and reporting deficiencies noted by the reviewer. In addition, we have started using a third-party reporting and disclosure checklist to ensure all reporting and disclosure matters are appropriately addressed. The reporting and disclosure checklist is tailored to specialized industries, where applicable.

The firm is now using third-party practice aids for guidance ~~in compilations of financial statements for management use only, and this includes engagement letters that conform to professional standards to document the client's understanding with respect to these engagements. on report modifications and disclaimers.~~

For the engagements reviewed, we have recalled and reissued our reports.

We believe these actions are responsive to the deficiencies noted on the review.

Sincerely,

[Name of firm]<sup>96</sup>

## Appendix R

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

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<sup>94</sup> The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

<sup>95</sup> The numbering of responses, to coincide with the numbered comments in the report, is optional.

<sup>96</sup> Signed by an authorized partner of the firm.

**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* or QCM) 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).

A summary of ~~T~~the nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review ~~are~~s described in the ~~s~~Standards may be found at [www.aicpa.org/prsummary](http://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. The provider is also responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any.

**QCM 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](http://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 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.<sup>97</sup>

## **Appendix S**

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

.225

#### **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* or *OCM*) 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).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review areas described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

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<sup>97</sup> The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.

### **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. The provider is also responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **OCM 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](http://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.

### **Deficiencies<sup>98</sup> Identified in the Provider's System of Quality Control and Resultant Materials**

We noted the following deficiencies<sup>99</sup> during our review:

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

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<sup>98</sup> Should be tailored to indicate a single deficiency, when applicable.

<sup>99</sup> The deficiencies ~~and related recommendations~~ provided are examples ~~provided~~ for illustrative purposes only.



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, 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 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<sup>100</sup>

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<sup>100</sup> The report should be signed in the name of the team captain's firm for firm-on-firm reviews or association formed review teams.

## Appendix T

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

.226

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 or QCM*) 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).

A summary of ~~t~~The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review ~~areas~~ described in the ~~s~~Standards may be found at [www.aicpa.org/prsummary](http://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. The provider is also responsible for evaluating actions to promptly remediate materials not deemed as reliable aids, when appropriate, and for remediating weaknesses in its system of quality control, if any.

#### QCM 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](http://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 Deficiencies<sup>101</sup> Identified in the Provider's System of Quality Control and Resultant Materials

We noted the following significant deficiencies<sup>102</sup> 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.~~

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<sup>101</sup> Should be tailored to indicate a single significant deficiency, when applicable.

<sup>102</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

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, the system of quality control for the development and maintenance of the quality control materials of XYZ Organization was not suitably designed 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 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*.

ABC & Co.<sup>103</sup>

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<sup>103</sup> The report should be signed in the name of the team captain’s firm for firm-on-firm reviews or association formed review teams.

Final Proposed Interpretations

Cooperating in a Peer Review

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

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

**AICPA Peer Review Board Resolution (Adopted April 29, 1996 with amendments through January 1, 2009, May 3, 2011, January 30, 2014, and September 30, 2014)**

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

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

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

- (1) Timely file requested information with the entity administering the firm’s peer review concerning the arrangement or scheduling of that peer review, prior to the commencement of the peer review,
- (2) Timely submit requested information to the reviewer necessary to plan or perform the firm’s peer review, prior to the commencement of the peer review,
- (3) Have a peer review by the required date,
- (4) Accurately represent its accounting and auditing practice, as defined by the *AICPA Standards for Performing and Reporting on Peer*

- Reviews, after notifying its administering entity that it does not perform engagements that require the firm to have a peer review,
- (5) Timely pay in full the fees and expenses of the review team formed by an administering entity, or
  - (6) Timely pay fees related to the administration of the program that have been authorized by the governing body of an administering entity.

The AICPA Peer Review Board may at its discretion decide to hold a hearing. Whether a hearing is held or not, a firm enrolled in the AICPA Peer Review Program has the right to appeal to the AICPA Joint Trial Board within 30 calendar days of being notified that the firm's enrollment has been dropped.

If a firm's enrollment is dropped for not accurately representing its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews*, or subsequent failure to submit a peer review by a required due date, ~~the matter will may result in referral to the AICPA Professional Ethics Division for an investigation of a possible violation of the AICPA Code of Professional Conduct by an appropriate regulatory, monitoring or enforcement body.~~ If a firm's enrollment is dropped for such an omission or misrepresentation, re-enrollment will be subject to approval by a hearing panel.

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

**AICPA Peer Review Board Resolution (Adopted April 29, 1996 with amendments through January 1, 2009, May 3, 2011, August 8, 2012, January 30, 2014, September 30, 2014, and November 30, 2014)**

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

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

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

- Not responding to inquiries once the review has commenced,
- Withholding information significant to the peer review, for instance but not limited to:
  1. failing to discuss communications received by the reviewed firm relating to allegations or investigations in the conduct of

- accounting, auditing, or attestation engagements from regulatory, monitoring, or enforcement bodies;
2. omission or misrepresentation of information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews*, including, but not limited to, engagements performed under Government Auditing Standards; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements],
    - Not providing documentation including but not limited to the representation letter, quality control documents, engagement working papers, all aspects of functional areas,
    - Not responding to MFCs or FFCs timely,
    - Limiting access to offices, personnel or other once the review has commenced,
    - Not facilitating the arrangement for the exit conference on a timely basis,
    - Failing to timely file the report and the response thereto related to its peer review, if applicable,
    - Failing to cooperate during oversight, or
    - Failing to timely acknowledge and complete required corrective actions or implementation plans.

The firm will be advised by certified mail, or other delivery method providing proof of receipt, that the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated. A firm enrolled in the AICPA Peer Review Program that has been notified that it is the subject of such a hearing may not resign until the matter causing the hearing has been resolved. After a hearing is held, a firm whose enrollment in the AICPA Peer Review Program has been terminated has the right to appeal the panel's decision to the AICPA Joint Trial Board within 30 calendar days of the hearing; and

If a firm omits or misrepresents information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews* that results in a material departure<sup>fn 2</sup> in the firm's most recently accepted peer review, acceptance of the peer review documents will be recalled. A hearing panel will determine whether the firm's enrollment in the AICPA Peer Review Program should be terminated. If the hearing panel

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<sup>fn 2</sup> Material departure is defined in the Report Acceptance Body Handbook, Chapter 3, Section VII, Recall of Peer Review Documents.



determines that the firm's enrollment will not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision.

Firms that voluntarily notify the administering entity of an omission or misrepresentation resulting in a material departure will not be subject to a hearing panel. This notification from the firm must be prior to the AICPA or administering entity being otherwise notified of or discovering the omission or misrepresentation and prior to the firm receiving notification from another regulatory or monitoring agency. Acceptance of the peer review documents will be recalled and the firm will be required to submit a replacement review to its administering entity by the due date which will be approximately 90 days after the firm's notification to the administering entity.

If a firm's enrollment is terminated for omission or misrepresentation of information relating to its accounting and auditing practice as defined by the *AICPA Standards for Performing and Reporting on Peer Reviews* or subsequent failure to submit a replacement review by the due date established by a hearing panel, ~~the matter will may result in referral to the AICPA Professional Ethics Division for an investigation of a possible violation by an appropriate regulatory, monitoring or enforcement body of the AICPA Code of Professional Conduct.~~ If a firm's enrollment is terminated for such an omission or misrepresentation, re-enrollment will be subject to approval by a hearing panel.

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to receive a pass report rating subsequent to receiving notification via certified mail, or other delivery method providing proof of receipt, after a peer review rating of *pass with deficiencies* or *fail* that a consecutive peer review rating of *pass with deficiencies* or *fail* may be considered a failure to cooperate with the administering entity.

BE IT FURTHER RESOLVED: The administering entity has the authority to determine if a firm's response is substantive. If the administering entity determines that a response is not substantive, and the firm does not revise its response or submits additional responses that are not substantive as determined by the administering entity, this would also be deemed as a firm's failure to cooperate.

BE IT FURTHER RESOLVED: The administering entity has the authority to determine if erroneously provided or omitted information by a firm that results in a significant change in the planning, performance, evaluation of results, or peer review report is a matter of noncooperation. The firm's failure to provide substantive responses during the process of resolving such a matter may also be deemed as a firm's failure to cooperate.

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to timely notify the administering entity that it is performing a type of engagement(s) or engagement(s) in an industry in which the firm had previously represented by written communication to the administering entity that it was no longer performing and had no plans to perform, in response to a related corrective action or implementation plan wherein the corrective action or implementation plan was eliminated by the administering entity based on the representation.

BE IT FURTHER RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be terminated for failure to cooperate in any of the preceding situations, without a hearing, upon receipt of a plea of guilty from the firm; and

BE IT FURTHER RESOLVED: That pursuant to the AICPA *Standards for Performing and Reporting on Peer Reviews*, the fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, whether with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe.

## **Performing System Reviews at a Location Other Than the Reviewed Firm's Office**

**8-1** *Question*—Paragraph .08 of the standards states that the majority of the procedures in a System Review should be performed at the reviewed firm's office. What criteria have been established by the board for procedures to be performed at a location other than the reviewed firm's office?

*Interpretation*—If the review can reasonably be performed at the reviewed firm's office, it should be. Although certain planning procedures may be performed at the peer reviewer's office, it is expected that a majority of the peer review procedures, including the review of engagements, testing of functional areas, interviews, and concluding procedures should be performed at the reviewed firm's office.

However, it is recognized that there are some situations that make an on-site peer review cost prohibitive or extremely difficult to arrange, or both. In these situations, if the firm and reviewer mutually agree on the appropriateness and efficiency of an approach to the peer review such that it can be performed at a location other than the reviewed firm's office, then the reviewer can request the administering entity's approval to perform the review at a location other than the reviewed firm's office. This request should be made prior to the commencement of fieldwork, and the firm and reviewer should be prepared to respond to the administering entity's inquiries about various factors that could affect their determination. These factors, which are not mutually exclusive and will be considered judgmentally, include but are not limited to

- the availability of peer reviewers qualified to review the firm, including whether they have the experience in the industries and related levels of service for which the firm practices, whether they are independent of the firm and not, for instance, competitors within the

same close geographic area, and whether the firm is reasonably accessible to those reviewers.

- whether the review conducted at the reviewer's office or another agreed-upon location can still achieve the objectives of a System Review.
- whether the results are expected to be the same as they would be if the peer review was performed at the reviewed firm's office.
- the size of the reviewed firm, including the number of personnel and where they perform their work (for instance, whether they work solely at clients' offices and the firm does not have its own office).
- the number of engagements covered by the Statements on Auditing Standards (SASs), *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or ~~audits of non-SEC issuers~~ engagements performed pursuant to the standards of the PCAOB.
- the ability of the reviewed firm and the peer reviewer to hold one or more effective meetings by telephone to discuss the firm's ~~responses to the quality control policies and procedures questionnaire and other practice aid questionnaires (including various interviews), system of quality control, perform inquiries and interviews necessary to perform functional testing, discuss "No" answers on engagement checklists, Engagement Review results,~~ the reviewer's conclusions on the peer review, and any recommended corrective actions.
- the prior peer review results of the firm, including whether the firm received a report with a peer review rating of *pass with deficiencies* or *fail* on its last System or Engagement Review, or if it is the firm's first System Review.
- whether the firm is able to effectively comply with the reviewer's requests for materials to be sent to the reviewer prior to the review (except as noted in the following list). Those requests should include, in addition to materials outlined in section 4100, *Instructions to Firms Having a System Review*, the following materials:
  - a. All documentation related to the resolution of independence questions (1) identified during the year under review with respect to any audit or accounting client or (2) related to any of the audit or accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period
  - b. The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the firm acted as principal auditor or accountant
  - c. The most recent representations received from the sole practitioner concerning his or her conformity with applicable independence requirements

- d. A written representation, dated the same as the peer review report, as described in paragraph .05(f) and appendix B of the standards
- e. Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client
- f. A list of relevant technical publications used as research materials, as referred to in the quality control policies and procedures questionnaire
- g. A list of audit and accounting materials, if any, identified in response to the questions in the “Engagement Performance” section of the quality control policies and procedures questionnaire
- h. Continuing professional education (CPE) records sufficient to demonstrate compliance with state, AICPA, and other regulatory CPE requirements
- i. The relevant accounting and auditing documentation and reports on the engagements selected for review
- j. Documentation of the firm’s monitoring results for each year since the last peer review or enrollment in the program
- k. Any other evidential matter requested by the reviewer

The reviewed firm should understand that in the event that matters are noted during the review of selected engagements, the scope of the review may have to be expanded before the review can be concluded.

## **Timing of the Peer Review**

### **17-1**

*Question—Paragraph .17 of the standards indicates that the peer review should ordinarily be conducted within three to five months following the end of the year to be reviewed. Paragraphs .92 and .115 further explain the exit conference should occur after allowing the firm sufficient time to respond to MFC forms, FFC forms, deficiencies and significant deficiencies discussed at the closing meeting. The exit conference date should also occur prior to but no later than the review due date. How does this affect the timing of a peer review?*

*Interpretation—Peer reviews are ordinarily due 6 months after the firm’s peer review year-end date. The team or review captain should take the review due date into consideration prior to accepting the peer review and during planning to ensure adequate time has been built into the peer review timeline to allow the firm sufficient time to assess appropriate responses to MFC forms, FFC forms, deficiencies, and significant deficiencies. In order to provide sufficient time to the firm, the peer review should be conducted within 3-5 months after the end of the year to be reviewed, ordinarily providing the reviewer and firm the last 30 days prior to the due date for this assessment and submission of the peer reviewer’s materials, peer review report, and letter of response, if applicable, by the review due date.*

Ordinarily, extensions will not be granted subsequent to commencement of the review (see Interpretation 206-1) to allow the review team and firm more time to finalize peer review documents.

## **Planning Considerations**

### **39-1**

*Question*—Paragraph .39 of the standards notes that the team captain should evaluate the actions of the firm in response to the prior review report and FFC forms. What considerations should be made if the firm did not perform the actions noted in the prior review letter of response and FFC forms?

*Interpretation*—The team captain should consider whether the firm performed sufficient alternative actions after further assessment of the systemic cause. If sufficient alternative actions were performed, the alternative procedures and the reviewer's assessment of those procedures should be noted in the Summary Review Memorandum. However, if sufficient alternative actions were not performed, the team captain should gain an understanding from the firm about why the actions were not performed and consider whether there are deficiencies in other elements of quality control, such as leadership responsibilities for quality within the firm (the tone at the top). This evaluation should be documented in the Summary Review Memorandum.

### **40-1**

*Question*—Paragraph .40 of the standards notes that the peer reviewer should consider whether the areas to be addressed in the written representation require additional emphasis in the course of the review. To what extent should the team captain consider the results of regulatory or governmental oversights in the planning and performance of the peer review?

*Interpretation*—If the firm has undergone oversights or inspections by regulatory or governmental entities (for instance, the Department of Labor, the Department of Health and Human Services, or other local, state, or federal entities), the team captain should consider the results of those oversight reviews during planning and when determining the nature and extent of peer review procedures. The results from regulatory or governmental oversights are sources of information that should be considered within the context of peer review, as they can provide valuable information that may assist the review team in planning its procedures. However, the team captain should keep in mind that the goals of regulatory or governmental oversight may differ from the purpose of a system review, and it would be inappropriate to place reliance on regulatory or governmental oversight results. The team captain should consider and document the following factors regarding the procedures and results of regulatory or governmental oversights and communications from regulatory or governmental bodies:

- *The impact of regulatory or governmental oversight on the scope of the peer review.* When the types of engagements subject to regulatory or governmental oversight are also within the scope of engagements that can be selected for peer review, the review team should consider how the nature, **systemic cause**, pattern, or pervasiveness of the oversight results impact the peer review in terms of inherent risk (for example, the firm’s demonstrated expertise in performing those types of engagements) and control risk (for example, how the system of quality control is designed to prevent issues in those types of engagements and the effectiveness of those controls based on the regulatory or governmental results), and document those considerations in the risk assessment.

If the oversight results indicate a lack of comments or only minor issues, the team captain should document the nature of the oversight results as a consideration in the risk assessment. Although a lack of comments is not necessarily indicative that the firm’s system of quality control is operating effectively for the relevant industry practice, it is a factor in assessing inherent and control risk. When the oversight results include more substantive comments, the review team should evaluate the significance of the comments relative to the applicable industry and other industries and practice areas, and consider what impact, if any, they have on the peer review scope.

If the oversight results include deficiencies or indications of engagements that were not performed or reported on in conformity with applicable professional standards in all material respects in the view of the oversight body, the team captain should understand the **underlying-systemic cause(s)** identified by the firm and evaluate how the firm responded to the oversight results in order to properly consider the impact on the peer review risk assessment and engagement selection. If similar matters are identified as a result of the review team’s review of engagements during the peer review, the team captain should consider whether the **underlying-systemic causes** identified by the firm (if any) are similar to the **underlying-systemic causes** identified by the review team.

- *The timing of the regulatory or governmental oversight results.* The team captain should consider the time period covered by the regulatory oversight results in determining their usefulness for assessing peer review risk and determining the impact (if any) on the extent of peer review procedures. When possible, the team captain should obtain the oversight results from the most recently available oversight reviews. The team captain should inquire

about any open or ongoing oversight reviews, the status of those oversight reviews, and the firm's preliminary remediation plans (if applicable).

- *The firm's responsiveness to regulatory or governmental oversight results.* The team captain should consider the degree of the firm's responsiveness to oversight findings and other communications, as evidenced by the remediation planned or taken. Remediation efforts by the firm may impact industries that are subject to peer review and can be useful in assisting the team captain with considering the design of the firm's system of quality control or compliance with it. The team captain should document this consideration in the risk assessment during the planning of the review.
- *The size of the firm relative to its specialized industry practice(s).* The team captain should consider the relative significance of the specialized industry practice(s) subject to regulatory oversight to the firm's total practice in determining the relevance of the regulatory oversight results to the peer review. The team captain should document this consideration in the Summary Review Memorandum (when applicable).

40-2

*Question*—What additional considerations related to the results of PCAOB inspections should the team captain address in the planning and performance of the peer review?

*Interpretation*—Although the PCAOB inspection reports only cover the portion of a firm's practice that is subject to permanent inspection, most firms typically have only one system of quality control. As a result, the PCAOB inspection report may contain information that could assist the reviewer in assessing risk, planning, and performing peer review procedures. The team captain should read the public portions of the most recently released PCAOB inspection reports and discuss both the public and nonpublic portions of the reports with appropriate firm personnel. If the report on the firm's most recent PCAOB inspection report has not been released, the team captain should discuss any findings that may have been communicated orally or in draft form with appropriate firm personnel. The firm is required to discuss relevant PCAOB matters with the team captain.

In considering the impact of the PCAOB report on the nature, planning, and extent of peer review procedures, the review team should consider the nature, **systemic cause**, pattern, or pervasiveness of the findings contained in the PCAOB inspection report. The review team should also consider the relative importance of the finding(s) to the firm as a whole. When applicable, the review team should

- consider the information contained in public portions of the PCAOB inspection reports.



- consider the information in the nonpublic portions of the PCAOB inspection reports (based upon discussion with the firm).
- perform further inquiry of the firm in determining the offices, partners, and so on related to findings detailed in the PCAOB report.
- determine which PCAOB findings (if any) may be applicable to the portion of the firm’s practice that was not subject to PCAOB inspection.
- understand the **underlying systemic cause(s)** of the findings (as determined by the firm).
- understand how the firm remediated the findings for the most current inspection (or the firm’s remediation plan).
- consider the firm’s remediation history with respect to PCAOB inspection findings (if any).

The team captain should document in the risk assessment how this information impacts the planned peer review procedures. Discussion of PCAOB inspection findings should not be interpreted as permitting the peer reviewer to request the nonpublic portions of the PCAOB inspection report.

## **Understanding, Assessing, and Documenting Peer Review Risk Factors and Risk Assessment**

**52-1** Question—Paragraphs .46–.52 discuss peer review risk factors and risk assessment. What other guidance should be considered?

Interpretation—Reviewers must assess peer review risk and use a risk-based approach in the selection of engagements and offices for review. Reviewers should formalize the risk assessment before arriving on-site in the reviewed firm’s office and before selecting one or more engagements for review, otherwise they should expect ineffectiveness and, at the very least, inefficiency.

### **Inherent Risk Factors**

In assessing inherent risk factors, the reviewer should consider

- circumstances arising within the firm (for example, the firm or individual partners have engagements in several specialized industries);
- circumstances outside the firm that impact the firm’s clients (for example, new professional standards or those being applied initially for one or more clients, changes in regulatory requirements, adverse economic developments in an industry in which one or more of the firm’s clients operate, or significant developments in the client’s organization); and

- variances that may occur from year to year, engagement to engagement or, perhaps, from partner to partner, within the firm (for example, inherent risk will always be higher for an audit of a company or organization operating in a high-risk industry than for a compilation of financial statements without disclosure for a company operating in a noncomplex industry; and there are many situations between these two extremes).

#### Control Risk Factors

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

The assessed levels of risk are the key considerations in deciding the number and types of engagements to review and, where necessary, offices to visit. Through the assessment of risk, the reviewer determines the coverage of the firm's accounting and auditing practice that will result in an acceptably low peer review risk. Engagements selected should provide a reasonable cross-section of the firm's accounting and auditing practice, with a greater emphasis on those engagements in the practice with higher assessed levels of peer review risk.

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

- The relationship of the firm's audit hours to total accounting and auditing hours
- Size of the firm's major engagement(s), relative to the firm's practice as a whole
- Initial engagements and their impact on the firm's practice

- The industries in which the firm's clients operate, especially the firm's industry concentrations
- The results of the prior peer review
- The results of any regulatory or governmental oversight or inspection procedures
- ~~The results of the team captain's assessment of the firm's design of and compliance with quality controls in accordance with SQCS 8 Owners' CPE policies and the firm's philosophy toward continuing education (Accumulate the necessary hours or maintain the needed skills and improve delivery of professional services.)~~
- ~~Firm's policies and procedures to determine and monitor compliance with legal and regulatory requirements in accordance with SQCS No. 8, including but not limited to the following:~~
  - ~~— Firm and individual licenses to practice, in the state the practice unit is domiciled (main office is located) and in the state in which the individual primarily practices public accounting~~
  - ~~— Additional policies and procedures to comply with applicable out-of-state firm and individual licensing requirements~~
- ~~The firm's monitoring policies~~
- ~~Adequacy of the firm's professional library~~
- Risk level of the engagements performed (For example, does the firm perform audits of employee benefit plans, entities subject to Circular A-133, and others under Government Auditing Standards, HUD-regulated entities, and others with high-risk features or complex accounting or auditing applications?)
- Have there been any major changes in the firm's structure or personnel since the prior peer review?

#### Detection Risk

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

See section 3100, Supplemental Guidance, for an example of an appropriately documented risk assessment in the SRM.

## Planning and Performing Compliance Tests ~~of Requirements of Voluntary Membership Organizations~~

### 54c-1

*Question*—Paragraph .54(c) discusses the peer reviewer’s requirement in a System Review to review evidential material, to determine whether the firm has complied with its policies and procedures for each element of its system of quality control, which may include evidence since the previous peer review. When is it appropriate to review evidential matter from prior to the peer review year and what are the reporting implications?

*Interpretation*—In performing a review of a firm’s system of quality control, a team captain will develop a plan for the nature and extent of testing relative to the firm’s compliance with their quality control policies and procedures. As the team captain will be opining on design and compliance with the system of quality control in effect for the year ending the peer review year end date, it is necessary to test compliance with each element of the firm’s system of quality control.

Interpretations 58-1, 58-2, and 58-3, Office and Engagement Selection in System Reviews, provide considerations for when it is appropriate to test the engagement performance element of a firm’s system of quality control outside of the peer review year. If no events relative to the other element policies and procedures occurred during the peer review year, it may be necessary for a team captain to review evidential matter from prior to the peer review year. For example, the firm may have accepted a new engagement in the year following the previous peer review but did not accept any during the current peer review year. In such a situation, the team captain may review evidential matter since the previous peer review year to evaluate the firm’s compliance with its engagement acceptance quality control policies and procedures. If the team captain discusses the firm’s procedures for acceptance of the new client and the firm indicates its only procedures were to review the predecessor auditor’s workpapers, this may indicate there is a design matter in the firm’s system of quality control related to acceptance and continuance. The team captain will then need to evaluate if there are any indicators of change to that policy since the last acceptance of an engagement and determine if the matter should be elevated to either an FFC or a deficiency in the report. If the team captain determines that the policy is designed appropriately and there is a compliance matter, it should be treated as any other compliance matter for actions during the peer review year.

Another example would be when the team captain reviews the monitoring and inspection results from the intervening periods to determine appropriate design and compliance of monitoring procedures. Looking at the intervening periods allows the team captain to evaluate whether the firm is properly communicating and remediating engagement and systemic issues identified.

As stated above, the team captain will be opining on design and compliance with the system of quality control in effect for the year ending the peer review year

end date. If, for example, there were no instances of accepting new clients in the peer review year, it is appropriate to test compliance in prior years assuming the design of the policies and procedures is the same. If the design of the policies and procedures has changed and the team captain is unable to test compliance with an element of the firm's system of quality control, a scope limitation for the review should be considered in consultation of administering entity.

## Office and Engagement Selection in System Reviews

58-1

*Question*—Paragraph .58 of the standards provides guidance on steps to follow if a current year's engagement has not been completed and issued. What is the impact, if any, for audit engagements subject to professional standards, statutes, regulations, or the firm's quality control policies, which may allow a specified time for an assembly process after issuance?

*Interpretation*—Professional guidance indicates that auditors should not date the audit report until they have obtained sufficient appropriate audit evidence to support the opinion. At that point audit documentation should have been reviewed, financial statements should have been prepared, and management should have asserted its responsibility for them. Document completion dates specify a date certain by which assembly of the audit file must be completed. During the period leading up to that date, changes can be made to the audit documentation to complete the documentation and assembly of audit evidence, perform routine file-assembling procedures, sign off on file completion checklists and add information received after the date of the auditor's report; for example, an original confirmation that was previously faxed. However, the sufficient appropriate audit evidence would have already been required to be in place when the report was dated and thus would be in place when it was issued. Thus, there is no impact on the process of selecting engagements for review.

58-2

*Question*—What if the incomplete engagement is an initial engagement and there is no comparable engagement?

*Interpretation*—If there is an incomplete engagement (which is an initial engagement) and there is no comparable engagement, the firm should request an extension from the administering entity. The administering entity will consider the circumstances and evaluate whether there is actually a matter of noncooperation (see [Interpretation No. 5h-1](#)). Although the administering entity will otherwise likely grant the extension, the firm needs to consider if it will be meeting the requirements of its state board of accountancy or other regulatory bodies. If an extension is not possible, the peer review should be performed and the report should include a scope limitation.

If the situation arose due to a permanent change in the nature of the firm's business, the firm should consider requesting a change in its peer review year-end date. If there is any uncertainty concerning how the situation should be handled, the administering entity should be contacted. See section 3100, *Supplemental Guidance*, for an example when there is an initial engagement performed under *Government Auditing Standards* (GAS, also known as the Yellow Book) meeting the preceding criteria.

**58-3**

*Question*—Paragraph .58 of the standards indicates that if the subsequent year's engagement has been completed and issued, the review team should consider, based on its assessment of peer review risk, whether the more recently completed and issued engagement should be reviewed instead. What are some factors to be considered and implications on the peer review?

*Interpretation*—Other than consideration of the firm's risk assessment and the factors that contributed to it, the reviewer may consider if the subsequent engagement was performed during or after the peer review year. In addition, the reviewer should consider the number of subsequent engagements available and selected for review, as well as the differences in issues encountered in the engagements whether the year-end was within the peer review year or subsequent to it. The greater the number of subsequent year engagements selected, the greater the risk that the results of the review are not appropriate or matched in relation to the peer review year covered by the report and the related peer review results. In some situations, the team captain should consider whether it is more appropriate to issue the peer review report on the subsequent year. However, this should be a rare situation, would require advance approval from the administering entity, and that entity may request that the next review be accelerated to put the firm back on cycle. If many of the subsequent engagements have been issued, the reviewer should discuss the timing of the peer review with the firm so that future reviews may benefit from the results of the peer review before the subsequent engagements are issued.

## **Concluding on the Review of an Engagement**

**66-1**

*Question*—Paragraphs .66–.67 and .109 of the standards requires the review team to conclude on the review of an engagement by determining whether the engagement was performed or reported on in conformity with applicable professional standards in all material respects. How should this conclusion be made?

*Interpretation*—The review team should use practice aids that document, for each engagement reviewed, whether anything came to the review team's attention that caused it to believe the following, as applicable:

- a. The financial statements were not in conformity with GAAP in all material respects or, if applicable, with a special purpose

framework and the auditor or accountant's report was not appropriately modified.

- b. The firm did not perform or report on the engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards; for example, *Governmental Auditing Standards*.
- c. The firm did not perform or report on the engagement in all material respects in accordance with SSARS.
- d. The firm did not perform or report on the engagement in all material respects in accordance with SSAEs or any other applicable standards not encompassed in the preceding.

In Engagement Reviews, these results should be considered by the review captain in determining the type of report to issue.

#### 67-1

*Question*—Paragraphs .67 and .109 of the standards notes that the team captain or review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards in all material respects and remind the firm of its responsibilities under professional standards to take appropriate actions. How is this communication made? ~~and what other responsibilities does the team captain or review captain have in regard to the affected engagements?~~

*Interpretation*—If the reviewer concludes that an engagement is not performed or reported on in conformity with applicable professional standards in all material respects, the team captain or review captain should promptly inform an appropriate member of the reviewed firm on an MFC form. The team captain or review captain should remind the reviewed firm of its responsibilities under professional standards to take appropriate actions as addressed in the following professional standards, as applicable:

- AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, ~~or~~
- SSARS No. 19, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*, AR secs. 60, 80, and 90), or SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*, AR-C secs. 60, 70, 80, and 90) as applicable ~~SSARS No. 19, *Compilation and Review Engagements*, as applicable, or, if the firm's work does not support the report issued, as addressed in~~
- AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* (AICPA, *Professional Standards*)
- ET section 1.298.010, *Breach of Independence Interpretation* (AICPA, *Professional Standards*).



The reviewed firm should investigate the issue questioned by the review team and determine what timely action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports. The reviewed firm should then advise the team captain or review captain of the results of its investigation, including parties consulted, and document ~~on the MFC form the~~ actions planned or taken or its reasons for concluding that no action is required as follows:

- In the firm's response to the MFC form
- In the firm's response to the FFC form, if applicable
- In the firm's letter of response to deficiencies and significant deficiencies identified in the report, if applicable

The firm is also expected to make a representation in its representation letter to the team or review captain confirming it will remediate nonconforming engagements as stated by the firm on its MFC forms, FFC forms, or letter of response, as applicable.

~~Reviewers or administering entities should not instruct reviewed firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the reviewed firm and its client to make. However, the administering entity can require the reviewed firms to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review. The firm's response may affect other monitoring actions the administering entity's peer review committee may impose, including actions to verify that the reviewed firm adheres to the intentions indicated in its response.~~

~~If the reviewed firm has taken action, ordinarily the review team should review documentation of such actions (for example, omitted procedures performed, reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the action is appropriate. If the firm has not taken action, the review team should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).~~

**67-2**

Question—Paragraphs .67 and .109 of the standards note that the team captain or review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards in all material respects and remind the firm of its responsibilities under professional standards to take appropriate actions. What other responsibilities do the team and review captain have when nonconforming engagements are identified?

Interpretation—Reviewers or administering entities should not instruct firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. However, the administering entity

can require the firms to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review. The firm's response may affect other monitoring actions the administering entity's peer review committee may impose, including actions to verify that the firm adheres to the intentions indicated in its response.

If the firm has taken action, ordinarily the review team should review documentation of such actions (for example, omitted procedures performed, reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the action is appropriate. If the firm has not taken action, the review team should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).

On a System Review, the team captain should consider expanding scope to determine the pervasiveness of the nonconforming engagements. The extent of the nonconforming engagements is considered when determining the systemic cause and whether the matter should be elevated to a finding, deficiency, or significant deficiency.

Refer to paragraphs .68 and .84 of the standards for additional guidance on assessing when to expand scope and when matters may be isolated. Refer to Interpretation 100-1 for additional guidance for the evaluation of a firm's response.

## **Aggregating and Evaluating Matters**

### **79-1**

Question—Paragraph .79 of the standards indicates that in the absence of findings or deficiencies in the engagements reviewed, the reviewer may still conclude that there are conditions in the design of the firm's system of quality control that could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards. When would a design matter or compliance with a functional area, by itself, result in a peer review rating of pass with deficiencies or fail?

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

Examples may include but are not limited to the failure to establish or comply with policies and procedures designed to provide the firm with reasonable assurance that:

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

## Determining Whether There is a the-Systemic Cause for a Finding in a System Review

83-1

*Question*—Paragraph .83 of the standards notes that when a review team is faced with an indication that a matter(s) could be a finding ~~or that the firm failed to perform or report in conformity with applicable professional standards in all material respects~~, the review team's first task in such circumstances, in collaboration with the firm, is to determine the systemic cause ~~of the finding or failure~~. Why?

*Interpretation*—The evaluation of a firm's system of quality control is the primary objective of a System Review and the basis for the peer review report.

As such, when a reviewer in a System Review discovers a matter, including an engagement that was not performed or reported in conformity with applicable professional standards in all material respects, he or she should avoid considering the type of report to issue until the ~~underlying-systemic~~ cause of the matter (to determine if it rises to the level of a finding, deficiency or significant deficiency) is identified, where it is reasonably possible to do so.

Reviewers in a System Review must think of matters as symptoms of weaknesses in the firm's system of quality control. Further, reviewers, in collaboration with the firm, must make a good faith effort to try to identify the ~~underlying~~-systemic cause for those matters to determine if they rise to the level of a finding. A finding has a systemic definition; a finding is one or more related matters that result from a *condition* in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. With a finding, the reviewer is considering more than just the "matter;" they are considering the condition (that is, systemic cause) that resulted in the matter(s) occurring. Otherwise said, the reviewer must determine why the matters occurred. Upon further evaluation, a finding may rise to a systemically oriented deficiency or significant deficiency.

~~Causes for one or more matters are only documented when one or more matters rise to the level of a finding or a deficiency or significant deficiency (and then are documented on a FFC form or in the report, respectively). Furthermore, because the cause may not ultimately be documented for all matters, the only way to determine if one or more matters rise to the level of a finding or higher, is to try to identify the underlying-systemic cause. One reliable method for identifying a matter's systemic cause is to require complete answers on all MFC forms, instead of merely a check mark for the "yes we agree" response. The reviewer may also survey firm personnel for causes of matters.~~

The system risks identified as part of the completion of the Guidelines for Review and Testing of Quality Control Policies and Procedures (Sections 4500 to 4650) will be a helpful resource for reviewers in assessing the systemic cause. ~~Reviewers~~The assessment of the systemic cause should consider that separate matters that are exactly the same may result from completely different quality control weaknesses in the firm.

To properly assess the systemic cause, reviewers should not accept "oversight" or "isolated" as the firm's response without further investigation. Accordingly, the firm should provide sufficient detail for the reviewer to understand what caused the matter. For example, the failure to follow the firm's practice aid for a particular area may have been an isolated occurrence;

however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter. Further guidance is provided in Interpretation 84-1 to assist reviewers in determining if the matter is isolated.

~~Without identifying and understanding the underlying cause(s), a reviewer cannot make meaningful recommendations that help reduce the likelihood of the repeat finding(s), deficiency(ies) or significant deficiency(ies) recurring (or findings that develop into deficiencies or significant deficiencies in the future).~~

~~Reviewers should not assume that the recommendation of the use of standard forms and checklists will improve a firm's system of quality control. Although forms and checklists are helpful in many circumstances, their use may not change behavior, improve performance or cure findings, deficiencies and significant deficiencies. For example, checklists will not help firms that lack overall knowledge of accounting and auditing matters or knowledge in the specific area in which the deficiency arose. Nor will standard checklists help firms in which policies and procedures for the review of engagements are routinely overridden.~~

~~Additional guidance on the systemic approach of a System Review is included in chapter 4 of PRP 3300, *AICPA Peer Review Program Report Acceptance Body Handbook*.~~

83-2

*Question*—For System Reviews and Engagement Reviews, what is considered a repeat finding on a finding for further consideration (FFC) form?

*Interpretation*—On System Reviews, a repeat finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it that is noted during the current review and also on a FFC form in the prior peer review. The review team should read the prior review documentation, including the report, letter of response and FFC forms, if applicable, and evaluate whether the firm's planned actions noted on those forms were implemented. If the firm's planned actions to remediate the prior review findings were implemented, and the same finding is occurring, the review team should determine the condition in, or compliance with, the firm's system of quality control that caused the current finding. If it is determined to be the same systemic cause, the FFC form should indicate that similar findings were noted in the prior review. The review team should also consider whether there are findings in other elements of quality control. If the prior remedial actions (corrective actions, implementation plans, or as discussed in the firm's response on the FFC form) appear to be effective, the finding may be caused by some other condition in, or compliance with, the firm's system of quality control. If the ~~underlying-systemic~~ cause of the finding is different from that noted in the prior review, it would not be a repeat.

See section 3100, *Supplemental Guidance*, for an example of identifying repeat findings, deficiencies and significant deficiencies in a System Review.

On Engagement Reviews, a repeat is one in which the identified finding is substantially the same (that is, the same kind or very similar) as noted on a FFC form in the prior peer review as it relates to reporting, presentation, disclosure or documentation. For example, if a reviewer notes an engagement that had a disclosure or financial statement presentation finding on a FFC form in the prior peer review, the disclosure or financial statement presentation finding noted in the current review would need to be substantially the same disclosure or financial statement presentation finding to qualify as a repeat.

A firm that repeatedly receives peer reviews with consistent findings that are not corrected may be required to complete an implementation plan.

83-3

*Question*—Paragraph .83 of the standards notes the importance of determining the systemic cause of the identified findings ~~or failures to determine whether they are systemic in nature~~. How do the results of regulatory or governmental oversight or inspection factor into this determination?

*Interpretation*—If similar issues were raised in both the regulatory or governmental oversight(s) and in the peer review, the review team should further understand the systemic causes identified by the reviewed firm and consider whether there may be a systemic issue related to the design of the system of quality control or compliance with it. ~~It may also be helpful when considering appropriate recommendations to understand remediation taken by the firm.~~ See [Interpretations 40-1](#) and [40-2](#) for additional considerations.

## Isolated Matters in a System Review

84-1

*Question*—Paragraph .84 refers to isolated matters in a System Review. What is an isolated matter and what further guidance is there to address isolated matters?

*Interpretation*—An isolated matter occurs when there is an incident (or limited incidents) of noncompliance with professional standards or the firm’s quality control policies and procedures on one or more engagements (or aspect of a functional area) and the identical standards or policies and procedures were complied with on the remaining engagements or aspect of a functional area.

Reviewers should follow the guidance in paragraph .68, “Expansion of Scope,” and paragraphs .84–.85, “Determining the Systemic Cause for a Finding,” of the standards. The reviewer needs to evaluate the pervasiveness of the issue, including expanding scope if necessary. In some instances the team captain should expand scope to other engagements or aspects of functional areas, and determine that such matters did not occur elsewhere, thus evidencing that the noncompliance with the firm’s system of quality control was truly isolated. In these situations, team captains should focus on



the ~~underlying systemic~~ cause of the matter when analyzing if it is isolated and may consider a key area approach when expanding scope to other engagements or aspects of functional areas to determine if the matter is isolated. The reviewer's ability to conclude a matter is isolated may be dependent on his or her ability to expand scope to engagements or aspects of functional areas that are classified by common characteristics such as, but not limited to, the industry, level of service, the practitioners in charge, or engagements that must be selected in a peer review.

The reviewer should consider that a single disclosure matter and a single documentation matter may be isolated when taken individually but they may have resulted from the same ~~underlying systemic~~ cause. They should further consider that an isolated matter may be materially significant in amount or nature or both.

Reviewers should document their consideration of an isolated matter and the conclusions reached in the MFC form. Team captains should document the same in the Summary Review Memorandum. The documentation should include the details of the matter noted, how the reviewer expanded scope, if applicable, and why the reviewer concluded the matter was isolated. The documentation should provide enough information for the administering entity's peer review committee to determine if the team captain's conclusion is appropriate.

## **Communicating Conclusions at the Communication Requirements for Closing Meeting and Exit Conference**

**91-1** *Question*—Paragraphs .91, .92 and .115 of the standards instructs ~~a team captain peer reviewers~~ on communicating conclusions at the closing meeting and exit conference ~~in a System Review~~. What other guidelines should be followed?

*Interpretation*—The ~~team captain peer reviewer~~ should consider the need to have the team member(s) participate or be available for consultation (in person or via teleconference) ~~in during the closing meeting or~~ exit conference ~~or be available for consultation during the exit conference~~, especially when, in unusual circumstances, the team or review captain does not have the experience to review the industry of an engagement that was reviewed by the team member.

Furthermore, for System Reviews, the closing meeting and exit conference ~~is are~~ not the appropriate place or time to surprise the firm with the intention of issuing a *pass with deficiency* or *fail R* report or to discuss any unresolved accounting and auditing issues. It is expected that the team captain will have an open means of communication with various levels of personnel leading



up to the ~~exit conference~~closing meeting, having at a minimum and as applicable,;

- promptly informed them when an engagement is not performed or reported on in conformity with applicable professional standards,
- ~~having~~ discussed MFC and FFC forms including the systemic causes and related ~~recommendations~~remedial actions of the firm for any matters, findings, deficiencies, and significant deficiencies in advance, and
- ~~having~~ followed up on open questions and issues.

The closing meeting should ordinarily occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to findings, deficiencies, and significant deficiencies, if applicable. The exit conference should be used as a time to communicate the final results of the peer review and should only be conducted after the peer reviewer has assessed the appropriateness of the firm's responses on the MFC forms, FFC forms, and letter of response, if applicable.

**91-2**

Question—Paragraphs .91 and .115 of the standards states the reviewer should discuss matters, findings, deficiencies and significant deficiencies with the firm at the closing meeting. Does the reviewer need to document these items on MFC Forms, FFC Forms, and in the report, respectively, prior to the closing meeting or can that be performed subsequent to the closing meeting?

Interpretation—Prior to and during the closing meeting, the reviewer should provide the firm with the details supporting why a matter, finding, deficiency or significant deficiency have been identified. However, the documentation of these items on MFC forms, FFC forms, and in the report may occur after the closing meeting. The reviewer should ensure that the forms and deficiency descriptions are provided to the firm with sufficient time for the firm to document its response and for the reviewer to assess that response prior to the exit conference.

## **Notification and Submission of Peer Review Documentation to the Administering Entities by the Team Captain or Review Captain**

**94-1**

Question—Paragraphs .94, .120, and .190 of the standards instruct a reviewer to see the interpretations for guidance on notification requirements and submission of peer review documentation to the administering entity. What materials should be submitted by the team captain or review captain, and when should they be submitted by?

Interpretation—The team captain or review captain should notify the administering entity that the review has been performed. ~~—and should submit to that administering entity w~~Within 30 days of the exit conference date ~~in a System Review (or the review captain’s discussions with the reviewed firm regarding the results of the review in an Engagement Review)~~ or by the firm’s peer review due date, whichever date is earlier, ~~a copy of the report, and the team captain should submit~~ the following documentation ~~required by to~~ the administering entity~~s at a minimum (consider sending by an insured carrier or retaining or sending copies, or both):~~

For System and Engagement Reviews:

- Report, and letter of response, if applicable ~~(reminder: The reviewer is not expected to delay submission of peer review documents to the administering entity for receipt or review of the letter of response from the firm)~~
- Summary Review Memorandum, or Review Captain Summary, as applicable
- Engagement Summary Form (For Engagement Reviews)
- FFC forms, as applicable
- MFC forms, submitted electronically or hard copy, as applicable
- DMFC form, submitted electronically or hard copy, as applicable
- Firm’s representation letter
- 22,100-Part A, Supplemental Checklist(s) for Review of Single Audit Act/A-133 Engagement(s) and engagement profile(s) for A-133 engagements reviewed (if applicable) (for System Reviews)
- Summary of No Answers for the Guidelines for Review and Testing of Quality Control Policies and Procedures

~~Note that other working papers on these peer reviews are subject to oversight procedures and may be requested at a later date.~~

For all reviews administered by the National PRC, as applicable:

- ~~Committee appointed review team Engagement Reviews~~
- ~~All System Reviews, Engagement Reviews, and quality control materials reviews administered by the National PRC~~
- In addition to the preceding
- All of the documents required to be submitted for System Reviews and Engagement Reviews
- ~~, include all other working papers incorporated by reference, as applicable, including e~~
- Engagement questionnaires or checklists;

- ~~quality~~ Quality control documents and related practice aids;
- ~~staff~~ Staff and focus group interview ~~forms, focus group, and other~~ interview sessions;
- ~~planning~~ Planning documents;
- ~~and a~~ Any other relevant documents.

Note that all peer review working papers are subject to oversight procedures and may be requested at a later date.

Peer review working papers may be submitted to the administering entity electronically.

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

**96n-1**

*Question*—Paragraphs .96(n) and .122(n) of the standards instruct a team captain in a System Review (or review captain on an Engagement Review) to 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. What further guidance is available in regards to this requirement?

*Interpretation*—On System Reviews, a repeat is a deficiency or significant deficiency noted during the current review that was caused by the same system of quality control weakness noted in the prior review’s report. The review team should read the prior report and letter of response and evaluate whether corrective actions discussed have been implemented to determine whether the systemic cause is the same. The deficiency or significant deficiency should note that “This deficiency [or significant deficiency, as applicable] was noted in the firm’s previous peer review.”

If the corrective actions have been implemented and the same deficiency or significant deficiency is occurring, the review team, in collaboration with the firm, should determine the weakness in the firm’s system of quality control that is causing the deficiency or significant deficiency to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm’s system of quality control. If the ~~underlying—systemic~~ cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was caused by the same system of quality control weakness noted on a FFC form in the prior review. The team captain should consider if the firm’s planned actions to remediate the prior review findings were implemented, including implementation plans or those discussed in the

firm's response on the FFC form. If the prior remedial actions appear to be effective, the current deficiency may be caused by some other weakness in or compliance with the firm's system of quality control. If the underlying systemic cause of the deficiency is different from that noted in the prior review, it would not be a repeat. If the underlying systemic cause is determined to be the same, under these circumstances, it would still be appropriate to use the same wording as previously described "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review." If the systemic cause is the same, the review team should also consider whether there are deficiencies in other elements of quality control.

See section 3100, Supplemental Guidance, for an example of identifying repeat findings, deficiencies and significant deficiencies in a System Review. On Engagement Reviews, a repeat is one in which the identified engagement deficiency or significant deficiency is substantially the same (that is, the same kind or very similar) as noted in the prior review's report as it relates to reporting, presentation, disclosure or documentation. For example, if a reviewer notes an engagement that had a disclosure or a financial statement presentation deficiency in a prior review's report, the disclosure or financial statement presentation deficiency noted in the current review would need to be substantially the same disclosure or financial statement presentation deficiency to qualify as a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was substantially the same as was noted on a FFC form in the prior review. Under these circumstances, it would still be appropriate to use the same wording as previously described: "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review."

For System Reviews and Engagement Reviews in which there are repeat deficiencies or significant deficiencies that have occurred on two or more prior reviews the reviewer should state in the current report that, "this deficiency [or significant deficiency, as applicable] was noted on previous reviews."

A firm that repeatedly receives peer reviews with consistent deficiencies or significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. For such firms that fail to cooperate, the AICPA Peer Review Board may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the AICPA peer review program should be terminated or some other action taken. Therefore, it is critical that peer reviewers appropriately identify the underlying systemic causes of deficiencies and significant deficiencies on System Reviews and that reporting on System and Engagement Reviews is appropriate.

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

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

A significant deficiency in a System Review is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of fail. Therefore, this is a systemic approach to determining whether the deficiencies identified meet this significant deficiency threshold. If they do, then a report with a peer review rating of fail is issued and all of the deficiencies are considered significant deficiencies and are identified as such. Such a report would not have a section with "Significant Deficiencies Identified in the Firm's System of Quality Control" and another section for "Deficiencies Identified in the Firm's System of Quality Control," ~~as because~~ they would all be categorized as ~~Significant-significant Deficienciesdeficiencies~~.

A significant deficiency on an Engagement Review exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review. Such deficiencies are communicated in a report with a peer review rating of fail. Therefore, on an Engagement Review, all of the engagements reviewed are considered concerning whether deficiencies were noted when determining if the significant deficiency threshold is met. If they do, then a report with a peer review rating with fail is issued and all of the deficiencies are considered significant deficiencies and are identified as such. Such a report would not have a section with "Significant Deficiencies Identified on the Firm's Conformity With Professional Standards on Engagements Reviewed" and another section for "Deficiencies Identified on the Firm's Conformity With Professional Standards on Engagements Reviewed, if applicable," ~~as because~~ they would all be categorized as ~~Significant-significant Deficienciesdeficiencies~~.

## Submission of FFC Forms to the Administering Entities by the Team Captain or Review Captain—Firm Responses and Related Team or Review Captain Considerations

### 99-1

*Question*—Paragraphs .99, and .125 state that it is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. Should the team or review captain assist with this assessment?

*Interpretation*—Although it is ultimately the firm’s responsibility, the team or review captain and firm **may** collaborate to determine the response. In a System Review, the response will address the appropriate systemic cause and remedial actions. The team captain should provide information about risks in the firm’s system of quality control (as identified through the **Guidelines for Review and Testing of Quality Control Policies and Procedures in Sections 4500 to 4650**).

### 99-2

*Question*—Paragraphs .99 states that the firm’s response should include remedial action and paragraph.98 states that the firm’s response should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm’s response prior to the exit conference. How should the reviewed firm respond if it is unable to determine appropriate remedial actions prior to the exit conference?

*Interpretation*—If the reviewed firm is unable to determine appropriate remediation of weaknesses in its system of quality control and nonconforming engagements, if applicable, prior to the exit conference, the firm’s response should indicate interim steps that have been taken and confirm its intent to remediate when an appropriate response is determined. In these situations, the RAB considering the review will ordinarily assign an implementation plan or corrective action for the firm to provide its final remediation.

### 97100-1

*Question*—Paragraphs .97-100 and .1263 of the standards discuss the team captain or review captain’s responsibility to review and, evaluate, ~~and comment on~~ the reviewed firm’s responses on the FFC form and in the letter of response prior to its submission to the administering entity with the peer review working papers. What should be considered during that review?

*Interpretation*—The purpose of the firm’s response on the FFC form and in the letter of response is for a firm to stipulate, in writing, the specific action(s) that will be taken to correct findings and deficiencies noted by the reviewer and, on a System Review, to enhance the current system of quality control. In a System Review, the description of the action(s) the firm has taken or will take should discuss remediation of findings and deficiencies in the system of



quality control and nonconforming engagements, if applicable, to ensure prevention of recurrence of the **finding**, deficiency or significant deficiency discussed in the report. For System and Engagement Reviews, the action(s) should be feasible, genuine, and comprehensive, addressing each of the requirements in paragraphs .99 and .125. The letter of response should not be vague or repetitive of the deficiency or significant deficiency in the report, because then it is difficult to determine if the planned action will be appropriately implemented to ensure prevention; or if the action is inappropriate for correcting the deficiency or significant deficiency. The **FFC form and** letter of response should not be used as a place to indicate justification for the firm's actions that related to the deficiency or significant deficiency. If the firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.

In a System Review, a firm's failure to appropriately remediate findings, deficiencies, and nonconforming engagements is a strong indicator of a tone at the top weakness and the team captain should consider whether a related deficiency is appropriate. Reviewers are reminded that firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are appropriate, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

If after consideration of the firm's response, the team captain determines that there are other systemic issues such as tone at the top, he or she should not avoid addressing the issues, even if it puts the reviewer in an adversarial position. The team captain may consult with the administering entity or AICPA for support in how the issues should be addressed. Guidance on tone at the top and reporting examples within the Standards, Section 3100 *Supplemental Guidance*, and Section 4250 *Guidance for Writing Deficiencies and Significant Deficiencies Included in System Review Reports*, will assist the reviewer with supporting his or her conclusions. If a firm disagrees with the conclusions, the disagreement guidance in paragraph .93 and .116 of the Standards should be followed.

**99-1**

~~Question—Paragraphs .99 and .125 of the standards instruct a team captain or review captain to review and evaluate the firm's responses to all findings and recommendations not rising to the level of a deficiency or significant deficiency as reflected on the related FFC forms before they are submitted to the administering~~



entity. When should the FFC forms be submitted to the administering entity and who should submit them?

~~Interpretation—Ordinarily, the FFC forms should be responded to by the reviewed firm during the peer review; for example, during or immediately following the exit conference (in a System Review) or before or immediately following the review captain's discussions with the reviewed firm regarding the results of the review (in an Engagement Review). This would allow the team captain or review captain to assist the firm in developing its responses and obtaining the necessary signatures on the FFC forms and allow the team captain or review captain to review the responses at that time, all of which will expedite the process.~~

~~The reviewed firm's response should describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The team captain or review captain can provide assistance in ensuring that the responses are appropriate and comprehensive. However, it is also recognized that the reviewed firm may prefer to provide its final responses after it has had the opportunity to discuss them further internally, develop a plan of action, and more formally respond. In either case, the completed FFC forms should be submitted to the team captain or review captain no later than two weeks after the exit conference (in a System Review) or the review captain's discussions with the reviewed firm regarding the results of the review (in an Engagement Review), or by the peer review's due date, whichever is earlier. FFC forms are then submitted by the team captain or review captain with the applicable working papers to the administering entity. If the reviewed firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.~~

## Impact of SQCS No. 8 on Engagement Reviews

- 109-1** *Question*—Paragraph .109 of the standards notes that an Engagement Review does not include a review of other documentation prepared on the engagements submitted for review (other than the documentation referred to in paragraphs .107–.108), tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a System Review. Should or may the review captain obtain or make inquiries regarding a firm's written quality control policies and procedures during an Engagement Review? Would a firm's failure to have its quality control policies and procedures documented result in an individual engagement being deemed not performed or reported on in conformity with applicable professional standards, even if there are no other matters, findings, or deficiencies noted on the engagement?

*Interpretation*—SQCS No. 8 states that firms should document their quality control policies and procedures and that the size, structure, and nature of the practice of the firm are important considerations in determining the extent of the documentation of established quality control policies and procedures.

However, the objective of an Engagement Review is to evaluate whether engagements submitted for review are *performed and reported on* in conformity with applicable professional standards in all material respects. 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 the applicable documentation required by professional standards. An Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm’s system of quality control (which is what the documentation requirements are related to).

Further, AR section 100 paragraph .72 states, “deficiencies in or instances of noncompliance with a firm’s quality control policies and procedures do not, in and of themselves, indicate that a particular review or compilation engagement was not performed in accordance with SSARS.” This is also consistent with the SSAEs (and SASs).

Therefore, if reading the firm’s documented quality control policies and procedures or the inability for the review captain to do so has no impact on whether the actual engagements submitted for review are performed and reported on in conformity with SSARS and the SSAEs in all material respects, reading the documented quality control policies and procedures would only appear to give a review captain the insight concerning the **underlying systemic cause** concerning why a matter, finding, or deficiency occurred. Although this may be useful information in preparing MFCs or FFCs, the systemic reasons for these items are beyond the scope of an Engagement Review.

Therefore, obtaining or reviewing a firm’s documented quality control policies and procedures would not be applicable to Engagement Reviews.

Although the standards allow for “reading the applicable documentation required by professional standards,” and the SQCSs are a part of professional standards, it might appear that the standards do not prohibit the reviewer from obtaining and reading the firm’s documented quality control policies and procedures; however, it is deemed as beyond the scope of an Engagement Review.

SQCS No. 8 also states that at least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the requirements set forth in the Independence topic (AICPA, *Professional Standards*, ET sec. 1.200) which includes the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.200.001) and its related interpretations and the rules of state boards of accountancy and applicable

regulatory agencies. Written confirmation may be in paper or electronic form. Analogous to the preceding situation, obtaining or reviewing a firm's written independence confirmations would not be applicable to Engagement Reviews because the requirement is imbedded in the SQCSs and not a procedure required by SSARs or the SSAEs.

## Independent QCM Reviews

**176-1** *Question*—Paragraph .176 of the standards discusses the QCM review team's assessment of whether the materials are reliable aids by assessing the level of instructions and explanatory guidance in the materials, and determining whether the methodology inherent in the materials is appropriate. What other information is available to further explain these considerations?

*Interpretation*—Many firms place a high degree of reliance on QCM, based on the nature and use of such materials. Because of this reliance, there are expectations that the materials are standalone aids, and use of the materials as designed by a professional with an appropriate level of experience and expertise, provides reasonable assurance to assist user firms in conforming with all of the components which are integral to the applicable professional standards that the materials purport to encompass. Accordingly, the QCM review team should assess and document how the materials address each of these considerations in order to be reliable aids:

- a. Instructions should include, but are not limited to, the aids' applicability for different firms or clients (for example, based on size, industry, or engagement complexity; levels of experience or knowledge; and so on); a reminder for the need to tailor the materials as appropriate; and a reminder to use professional judgment in the application of the materials based on the facts and circumstances of each engagement. The instructions should also address the documentation requirements in professional standards, and specifically discuss whether completion of the aids will assist users with fulfilling those requirements.
- b. Guidance should be sufficient and technically accurate to assist users with conforming with the components that are integral to the professional standards that the materials purport to encompass, regardless of whether such standards are encompassed explicitly or implicitly. Explanatory guidance ranges from specific cross references to professional standards or directly quoting the standards, to explanations of the standards or integrating the verbiage of the standards into audit checklists or programs. QCM limited to audit program steps without explanatory guidance or specific reference to applicable professional standards would be considered insufficient and do not constitute reliable aids. In addition, materials that are industry specific should appropriately address the relevant professional standards and industry guidance from a completeness standpoint (for example, an aid that purports to assist users with performing risk

assessment procedures for an ERISA engagement should include AU-C section 320, *Materiality in Planning and Performing an Audit* [AICPA, *Professional Standards*], considerations tailored to the industry; the reviewer should question if AU-C section 320 considerations are omitted).

- c. The methodology inherent in the materials (if applicable), including the provider's stance on the application of professional standards or alternative procedures, should be evaluated to determine if the methodology provides reasonable assurance to assist user firms in performing an engagement in conformity with the components that are integral to the applicable professional standards that the materials purport to encompass. This is especially important when the methodology addresses the treatment of unique transactions or accounts, contains unique interpretations of professional standards, incorporates elements of widely recognized and accepted industry practice when higher levels of guidance are not available, or suggests departures from professional standards in certain circumstances.

QCM reviewers should refer to section 3100 for additional illustrative guidance for reliable aids.

Aids either lacking or containing an insufficient level of instructions or guidance or that contain inappropriate methodology, should be further evaluated by the QCM review team to determine if the aids are reliable. The QCM review team should also evaluate the impact on the provider's system of quality control for the development and maintenance of the aids. If an aid is deemed to not be a reliable aid, this should be reflected in a QCM review report with a rating of *pass with deficiencies* or *fail*, depending on the **underlying-systemic cause** of the issue.

Note that the intent of QCM is to assist in providing firms and practitioners with reasonable assurance of complying with professional standards as a part of their overall system of quality control. The independent review of such materials does not provide firms or practitioners with absolute assurance of compliance solely through reliance on the materials, nor is it intended to.

## Definition of Commencement

**206-1** *Question*—There are a number of instances in which the standards and interpretations refer to the “commencement” date of a review to determine whether a situation applies. Some examples are cooperating in a peer review ([Interpretation No. 5h-1](#)), approval of the review team by the administering entity ([Interpretation No. 30-1](#)), provision of the surprise engagement to the firm ([Interpretation No. 61-1](#)) and when the standards are effective for a firm's peer review (paragraph .206 of the standards). What is meant by “commencement”?

*Interpretation*—[Interpretation No. 5g-1](#) notes that “A peer review commences when the review team begins field work, ordinarily at the reviewed firm's office in a System

Review, or begins the review of engagements in an Engagement Review.” The easiest measure is “when fieldwork begins.” However, there are times when this may not apply. Therefore, [Interpretation No. 32-1](#) further notes that “team members may review their engagements prior to the team captain or review captain beginning their field work. In these situations, a review is considered to have commenced when the team member begins the review of engagements (if this is prior to the team captain or review captain beginning their fieldwork).” In certain circumstances, fieldwork may commence before the review of engagements, such as during planning.

The significance of this enhanced definition of “commencement” is emphasized by how it affects a firm’s ability to resign from the program once a review commences. Once a team captain, review captain or team member learns information that affects the results of the review, the review is deemed to have commenced. Some examples are if the team captain identifies a design deficiency, or learns about the firm’s noncompliance with state board of accountancy licensing requirements, during planning. Another example is the identification of a finding during a team member’s review of a specialized industry at a location other than the reviewed firm’s offices, prior to the team captain beginning fieldwork at the reviewed firm’s offices.

As indicated in [Interpretation No. 5g-1](#), a firm whose peer review has commenced may not resign from the program unless certain steps are followed which include the firm evidencing their noncooperation with the program and the AICPA publishing notice of the action so that the public interest is served.

## Firm Representations

**208-18-1**

*Question*—Paragraph [208\(18\)](#) (appendix B) of the standards advises that the firm is required to make specific representations but is not prohibited from making additional representations beyond the required representations, in its representation letter to the team captain or review captain. What parameters should be used in expanding-tailoring the representation letter?

*Interpretation*—The representation letter is not intended to be onerous for the reviewed firm. Allowing reviewers to add or delete whatever they want to the representation letter would make it very difficult to maintain consistency in the program. In addition, this becomes a very important issue because a firm’s failure to sign the representation letter may be considered noncooperation.

However, at a minimum the representation letter should comply with the spirit of the guidance, there is value to the reviewer of obtaining certain representations in writing. Thus, if during the review, something comes to the reviewer’s attention whereby the reviewer believes the reviewed firm is providing contradicting or questionable information, the reviewer should investigate the matter further and may consider having the firm include the matter in the representation letter.

Reviewed firms and reviewers are not permitted to tailor the required representations unless otherwise stated in paragraph .208 (8) because these are considered the minimum applicable representations for both System and Engagement Reviews.

## **Communications Received by the Reviewed Firm Relating to Allegations or Investigations in the Conduct of Accounting, Auditing, or Attestation Engagements From Regulatory, Monitoring, or Enforcement Bodies**

**208-  
1b8d-1**

*Question*—Paragraph .208 (paragraph 1(b) and (e) of appendix B) of the standards discusses the reviewed firm’s requirement to inform the reviewer of communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported on by the firm. What are the objectives of this requirement and what are some examples, although not an all-inclusive list, of such communications?

*Interpretation*—The objective of the firm informing its reviewer of such communications or summaries of communications is to enhance the risk-based approach to peer review by allowing the reviewer to better plan and perform the review, including engagement, industry, office, and owner selection that should be given greater emphasis in the review. It is expected that the reviewer and the firm will discuss these communications and that the firm will be able to submit the actual documentation to the reviewer in those circumstances that the reviewer deems appropriate. The reviewed firm is not required to submit confidential documents to the reviewer but should be able to discuss the relevant matters and answer the reviewer’s questions. The information should be provided in sufficient detail for the reviewer to consider its effect on the scope of the peer review.

It is also expected that the reviewer and firm will discuss notifications of limitations or restrictions on the reviewed firm’s ability to practice public accounting by regulatory, monitoring or enforcement bodies.

There are many types of communications that are appropriately related to meeting the objectives described in this interpretation. The following list, which is not intended to be all inclusive, represents examples of the types of organizations where communications would be relevant to meeting the objectives of the requirement:

- a. AICPA or State CPA Society Ethics Committees
- b. AICPA Joint Trial Board
- c. State boards of accountancy
- d. SEC

- e.* PCAOB
- f.* State auditor
- g.* Department of Labor
- h.* Employee Benefits Security Administration
- i.* Government Accountability Office
- j.* Office of Management and Budget
- k.* Department of Housing and Urban Development
- l.* FDIC
- m.* Office of Thrift and Supervision
- n.* Federal or State Inspector General's Offices
- o.* Rural Utility Service
- p.* Other governmental agencies or other organizations that have the authority to regulate accountants (in connection with the firm's accounting, auditing, or attestation engagements)

**Staff Note – Due to the reordering of paragraph .208 of the Standards, other representation letter Interpretations will also need renumbered as followed:**

- 208-1a-1 will become 208-8a-1
- 208-1a-2 will become 208-8a-2 (and reference therein to 208-1a-a will be revised to 208-8a-1)
- 208-1b-2 will become 208-8d-2



## Agenda Item 1.2C

### Conforming Changes to the Peer Review Program Manual

#### Why is this on the Agenda?

Conforming changes have been applied to the Peer Review Program Manual. Most of the changes are straightforward applications of the proposed Standards and Interpretations. Items to note are included in the comments section.

Agenda Item #	Manual Section	Comments
1.2C-1	3100 Supplemental Guidance	<ul style="list-style-type: none"> <li>• Risk Assessment – The risk assessment examples have not been revised in a long time and would therefore need more than just conforming changes. The STF has added preparation of risk assessment examples as a future agenda item.</li> <li>• Monitoring/QCD – The monitoring and QCD guidance is being deleted as it is no longer relevant.</li> <li>• Nonconforming Engagements – revisions were made to this section to align it with the explanatory memorandum section of the exposure draft</li> <li>• Tone at the Top – created to assist reviewers in identifying and developing tone at the top deficiencies</li> <li>• Timeline – brought in from the exposure draft and narrative provided</li> </ul>
1.2C-2	3300 RAB Handbook	<ul style="list-style-type: none"> <li>• This section was reviewed by the AATF and TRATF and suggestions have been incorporated.</li> </ul>
<b>System Reviews</b>		
1.2C-3	4100 Instructions to Firms	<ul style="list-style-type: none"> <li>• The timeline included in the supplemental guidance was also included as an exhibit for firms.</li> </ul>
1.2C-4	4200 Instructions for Reviewers	<ul style="list-style-type: none"> <li>• Moved guidance for writing deficiencies to Section 4250 so it is all in one place</li> </ul>
1.2C-5	4250 Guidance for Writing Def and Sign Def	<ul style="list-style-type: none"> <li>• Not shown in tracked changes as the entire section has been revised</li> </ul>
	4300 QC P&P Questionnaire for SP	<ul style="list-style-type: none"> <li>• Entire section to be deleted</li> </ul>
	4400 QC P&P Questionnaire for 2+	<ul style="list-style-type: none"> <li>• Entire section to be deleted</li> </ul>
	4750 Managing Partner Interview Form	<ul style="list-style-type: none"> <li>• Entire section to be deleted. Questions incorporated into the Team Captain Checklist</li> </ul>
1.2C-6	4800 Summary Review Memorandum	<ul style="list-style-type: none"> <li>• Other Planning E &amp; F (original lettering) - Reviewers typically combine these sections when documenting a risk assessment. Also, there are more requirements for a risk assessment than just the bullets referenced. Removed the bullets and referenced the guidance that should be followed.</li> <li>• Other Planning G (original lettering) - Removed as reviewers only need to conclude on the risks in one place and how it all</li> </ul>

		<p>impacts the peer review. Conclusions reached are new letter H.</p> <ul style="list-style-type: none"> <li>• Specific Findings H - eliminated sections I-K and created one section for nonconforming engagements. The instructions to the form already say to attach additional sheets, if necessary. (not an issue in the excel version). Also added more questions to assist a reviewer in evaluating the firm's response.</li> <li>• Removed the nonconforming engagement action codes as they may be contributing to the reviewer's misunderstanding of appropriate firm responses</li> </ul>
1.2C-7	4900 Team Captain Checklist	
1.2C-8	4960 FFC Form	
<b>Engagement Reviews</b>		
1.2C-9	6100 Instructions to Firms	<ul style="list-style-type: none"> <li>• The timeline included in the supplemental guidance was also included as an exhibit for firms.</li> </ul>
1.2C-10	6200 Instructions for Reviewers	
1.2C-11	6250 Guidance for Writing Def and Sign Def	
1.2C-12	6300 Review Captain Summary	<ul style="list-style-type: none"> <li>• Removed the nonconforming engagement action codes as they may be contributing to the reviewer's misunderstanding of appropriate firm responses</li> </ul>
1.2C-13	6600 FFC Form	
<b>QCM Reviews</b>		
1.2C-14	8100 Instructions for Providers	<ul style="list-style-type: none"> <li>• The QCM sections were reviewed by the QCMTF and suggestions have been incorporated.</li> </ul>
1.2C-15	8200 Instructions for Reviewers	
1.2C-16	8800 SRM	
1.2C-17	8900 Team Captain Checklist	
1.2C-18	8950 MFC Form	
1.2C-19	8960 FFC Form	

The remaining conforming agenda items will be discussed as follows:

- May PRB Open Session Materials
  - Agenda Item 1.2E – Forms for Evaluating QC Systems
    - 4500 Guidelines for Review of QC P&P for SP: To be split into 2 – 4500 and 4550 Guidelines for Review and Testing of QC P&P for SP
    - 4600 Guidelines for Review of QC P&P for 2+ Personnel: To be split into 2 – 4600 and 4650 Guidelines for Review and Testing of QC P&P for 2+ Personnel
    - 4700 Staff Interview Form
    - *NOTE – The Peer Review Board materials are being sent prior to approval of these guidelines by the STF. Therefore, the final May PRB materials may not include Agenda Item 1.2E.*
- Estimated August PRB

- 
- QC Checklists for Non-CPA Owned Entities Closely Aligned with a CPA Firm
    - 5100 QC P&P Questionnaire – to be deleted
    - 5200 Guidelines for Review of QC P&P: To be split into 2 – 5200 and 5250 Guidelines for Review and Testing of QC P&P
    - 5300 Staff Interview Form

**Board Consideration**

Discuss and approve Agenda Items 1.2C-1 through 1.2C-19.

Section 3100 – Supplemental Guidance

**Risk Assessments**

The following is an example of an appropriately documented risk assessment in the Summary Review Memorandum (SRM):

**HI.** Describe your assessment of the inherent and control risk related to the reviewed firm’s accounting and auditing practice and its system of quality control. The assessment of these risks is qualitative and not quantitative. The assessment must be comprehensive and address the relevant inherent and control risk factors. Examples of factors to consider are in the Interpretations 52-1. The assessment should include how the combined risks affected detection risk and, therefore, the scope of review procedures:

*Inherent and Control Risk Factors*—Firm’s practice has a few high- or moderate-risk clients, nine audits subject to Yellow Book (YB) (cities or local school districts, most subject to A-133), two other audits (a major construction company + a text book distributor), a few reviews (retail trade or medical practices), and the usual compilations for a rural-area firm.

One firm owner has significant experience in YB audits and is a respected “expert” on GASB 34. The other firm owner also has YB experience and recently served as a continuing professional education (CPE) discussion leader on 101-3 implementation in “small” firms. Each owner serves as partner in charge on audits and a cross-review system is in place. The five other professionals are each CPAs, and the practice has been very stable for 20+ years. Firm owners make all decisions relative to the quality control (QC) functional elements. Most of the firm’s CPE is group discussion, including an annual in-house (joint venture with a regional firm) A&A update with an outside speaker. The firm’s second office is a satellite office only used in tax season.

Based on review of completed QC questionnaire, the system in place is common to that found in firms with similar characteristics that have experienced successful peer reviews. The firm owners appear very conscious of QC matters. The firm uses an outside party to assist in its monitoring in year two of the three-year cycle, and internal monitoring procedures are strong and acceptably documented for each year (including the year covered by the review). The firm’s review history is very favorable, and there are no known factors that suggest the level of QC has dropped.

*Conclusion:* Inherent risk = moderate, due to YB/A-133 and construction audits; control risk = low, due to QC system features; detection risk = low, due to cross-section selected.

~~H2. Based on the preceding assessment, describe how you arrived at the office(s) and engagement(s) selected for review. Include a discussion of how the scope of the peer review covered a reasonable cross-section of the reviewed firm’s accounting and auditing practice, with greater emphasis on those engagements in the practice with a higher assessed level of peer review risk.~~

Because of the concentration, we selected two governmental audits (one A-133 and one new client, representing both owners); one construction audit (high risk industry is not firm’s strength); the retail trade review; and three compilations representing three industries (one with and two without disclosures). This covers each owner, all types of engagements, the “must select” requirement, and results in an acceptably low level of detection risk.

## **Monitoring and Documentation of a Firm’s System of Quality Control**

The following guidance should be used to determine the impact on the peer review when there is marginal or a lack of performance (including documentation) of monitoring, which is required by the Statement on Quality Control Standards (SQCS).

### **GUIDANCE FOR MONITORING FINDINGS**

<b>FINDING</b>	<b>CONCLUSION</b>
Marginal performance (including documentation) of monitoring, and there are no FFCs, deficiencies or significant deficiencies in the report	<i>Pass</i> ; marginal performance (including documentation) of monitoring is an exit conference item
Lack of performance (including documentation) of monitoring, and there are no FFCs, deficiencies or significant deficiencies in the report	<i>Pass</i> ; with FFC for lack of performance (including documentation) of monitoring
Lack of performance (including documentation) of monitoring, and there are FFCs for other issues, but no deficiencies or significant deficiencies in the report	<i>Pass</i> ; with FFC for lack of performance (including documentation) of monitoring
Lack of performance (including documentation) of monitoring, and there are deficiencies or significant deficiencies in the report	Deficiency in the <i>pass with deficiency</i> or <i>fail</i> report for the lack of performance (including documentation) of monitoring

*Statement on Quality Control Standards (SQCS)* requires a firm to document its system of quality control policies and procedures. The quality control questionnaires used in the peer review process may be sufficient documentation of the system of quality control for some firms, however, it should be completed and in effect prior to the beginning of the peer review year. If the peer reviewer does not deem the system of quality control to be adequately documented, that should be considered in conjunction with other findings and deficiencies noted, if any. If the firm does not have the quality control questionnaire

completed prior to the peer review but has an adequate system in place that is otherwise communicated and effective, the reviewer may deem this to be an exit conference item because the firm was not in compliance with the SQCS's documentation standards. However, by completing the questionnaire it is now in compliance. If the reviewer finds other deficiencies, he or she may consider this to be a monitoring issue and that the system of quality control is neither documented nor effective, and should ordinarily be a deficiency.

The following guidance should be used to determine the impact on the peer review when there is marginal or a lack of documentation of a firm's system of quality control as required by the SQCS.

### **GUIDANCE FOR DOCUMENTATION OF THE SYSTEM OF QUALITY CONTROL**

<b>FINDING</b>	<b>CONCLUSION</b>
Marginal documentation of the system of quality control, and there are no FFCs, deficiencies or significant deficiencies in the report	<i>Pass</i> ; marginal documentation of the system of quality control is an exit conference item
Lack of documentation of the system of quality control, and there are no FFCs, deficiencies or significant deficiencies in the report	<i>Pass</i> ; with FFC for lack of documentation of the system of quality control
Lack of documentation of the system of quality control, and there are FFCs for other issues, but no deficiencies or significant deficiencies in the report	<i>Pass</i> ; with FFC for lack of documentation of the system of quality control
Lack of documentation of the system of quality control, and there are deficiencies or significant deficiencies in the report	Deficiency in the <i>pass with deficiency</i> or <i>fail</i> report for the lack of documentation of the system of quality control

### **Responding to Engagements Not Performed or Reported on in Conformity With Applicable Professional Standards in all Material Respects (Nonconforming)**

Interpretation No. 67-1 indicates that the reviewed firm (firm) should make appropriate considerations to address engagements that are identified during the peer review that are not performed or reported on in conformity with applicable professional standards in all material respects (nonconforming). The primary responsibility is on the firm to follow professional standards to address these types of engagements. Auditing and accounting standards provide guidance for firms when this information comes to the attention of the firm subsequent to the report release date, such as information identified as a result of a peer review. The relevant professional standards include:

- AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, *Professional Standards*)-
- SSARS No. 19, *Framework for Performing and Reporting on Compilation and Review Engagements* (AICPA, *Professional Standards*, AR secs. 60, 80, and 90), or SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*, AR-C secs. 60, 70, 80, and 90) as applicable
- ~~, or, if the firm's work does not support the report issued, as addressed in~~ AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* (AICPA, *Professional Standards*)-
- ET section 1.298.010, *Breach of Independence Interpretation*-(AICPA, *Professional Standards*)

Interpretation No. 67-1 indicates that the reviewer should remind the firm of its responsibilities to follow the relevant professional standards to address these situations.

The firm should make and document comprehensive assessments about whether it is necessary to perform omitted procedures, or whether a material reporting error necessitates reissuance of an accounting or auditing report, revision to the financial statements, or remediation of the subsequent engagement. The firm should thoroughly consider the continued reliance by third party users on reports issued and procedures performed. Particularly, the firm should consider the expectations of regulatory bodies that the firm will perform the omitted procedures or correct reports in a timely manner.

The firm is expected to follow applicable professional standards regarding documentation of the omitted procedures, if performed, document performance or reissuance considerations, and provide a response to the peer reviewer. The firm's initial assessment should be timely and generally take place during the peer review to enable the peer reviewer to reach a proper conclusion about the engagement and evaluate the firm's response to the situation. ~~Ordinarily, if the firm does not have time to determine the appropriate remediation prior to the exit conference, the firm may indicate interim steps taken while it explores the best approach.~~ ¶The firm's response should be documented on the MFC form that appropriately describes the most significant matters indicating ~~the engagement is not performed or reported on in conformity with applicable professional standards in all material respects. The response may include referring to a memo subsequently added to the engagement documentation. The reviewed firm's response should indicate the conclusion and decision reached about whether or how to remediate each such engagement.~~ the engagement is nonconforming.

The peer reviewer should evaluate the firm's actions planned or taken or its reasons for concluding that no action is required for ~~each engagement not performed or reported on in conformity with applicable professional standards in all material respects~~ nonconforming engagement. The peer reviewer should thoroughly document these situations in the Summary Review Memorandum for System Reviews and Review



Captain's Summary for Engagement Reviews, including whether they believe the firm's considerations support its decision and whether a monitoring action is suggested to follow up on the remediation of the specific engagement. These peer review documents should be submitted for consideration during the peer review acceptance process. ~~If all the preceding is documented appropriately, the RAB should not typically challenge the reviewed firm's considerations, actions, or conclusions.~~ A reviewed firm's appropriately documented considerations in response to such an engagement and documentation of the reviewer's assessment of the reviewed firm's response are conditions of acceptance by the peer review committee. If the firm and peer reviewer considerations are not properly performed or documented, the RAB may defer acceptance of the peer review subject to appropriate considerations or peer review documentation.

Peer Rreviewers ~~or and~~ administering entities should not require or instruct reviewed firms to perform omitted procedures, reissue accounting or auditing reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. Firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are appropriate, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

If the firm determines It is not expected that omitted procedures will be performed, ~~or~~ at that notifications will be made to those relying on the reports, or that financial statements will be revised or reissued prior to the peer reviewer's conclusion on the engagement or conclusion on the peer review, it is not expected that these actions will be completed before the peer review concludes. However, the firm's response should include its intention to perform these steps, if known. The RAB may require follow up action to evaluate the firm's follow through on the intended or alternative steps taken.

In a system review, if the ~~reviewer team captain or RAB~~ concludes that the firm's response and consideration of the applicable standards is not appropriate to address ~~an engagement not performed or reported on in conformity with applicable professional standards in all material respects~~ the nonconforming engagement, the ~~reviewer team captain~~ should evaluate whether there are other weaknesses in the firm's system. For example, an inappropriate response may be this is indicative of a potential failure to comply with the leadership or tone at the top element in the firm's system of quality control. ~~The purpose of the leadership responsibilities element of a system of quality control is to promote~~ A failure to properly consider how to address nonconforming engagements may indicate an internal firm culture based on the recognition that fails to promote that quality is essential in performing engagements. ~~The firm's leadership responsibilities policies and procedures should provide a proper tone to ensure that the proper considerations are made to address engagements that are not performed or reported on in conformity with applicable professional standards in all material respects.~~

In system and engagement reviews, if the peer reviewer concludes that the firm's considerations and response are appropriately documented related to such an engagement and the firm indicates in its response that it intends to complete omitted procedures, reissue the auditor's or accountant's report, or have previously issued financial statements revised and reissued, the RAB will consider whether the firm's response is genuine, comprehensive, and feasible. The RAB may ~~also consider~~ accepting the peer review provided that requesting the firm ~~agrees to~~ submit evidence to an outside party acceptable to the RAB of performing and documenting the previously omitted procedures, ~~or the~~ reissuance of the report, or revision to the financial statements, if appropriate.

The firm's actions, taken or planned, may affect other monitoring actions that the RAB may impose. Additional guidance for determining when and what type of corrective action(s) or implementation plan(s) a RAB may require is provided in chapters 4 and 5 of the *Report Acceptance Body Handbook*.

## **Tone at the Top**

### *What is Tone at the Top?*

The AICPA Statements on Quality Control Standards (SQCS) No. 8 requires firms to establish and maintain a system of quality control to provide it with reasonable assurance that the firm and its personnel will comply with professional standards and applicable legal and regulatory requirements and also that reports issued by the firm are appropriate in the circumstances. One of the elements necessary to achieve such a system is leadership responsibilities for quality within the firm ("tone at the top"). The purpose of the leadership responsibilities element of a system of quality control is to promote an internal culture based on the recognition that quality is essential in performing engagements.

### *Indicators of a Tone at the Top Systemic Cause*

Indicators of a tone at the top systemic cause include but are not limited to:

- Firm leadership does not assume ultimate responsibility for the firm's system of quality control
- The person(s) assigned operational responsibility for the firm's system of quality control by the firm's leadership does not have sufficient and appropriate experience to identify and understand quality control issues and develop appropriate policies and procedure or have the ability or authority to implement those policies and procedures.
- There are not clear, consistent, and frequent actions and messages from all levels of the firm's management that emphasize the firm's quality control policies and procedures.
- The firm has not established policies and procedures that address performance evaluation, compensation, and advancement (including incentive systems) with regard to its personnel in order to demonstrate the firm's overarching commitment to quality.
- The firm has not assigned management responsibilities so that commercial considerations do not override the quality of the work performed.
- The firm does not provide sufficient and appropriate resources for the development, documentation and support of its quality control policies and procedures.
- With respect to internal inspections, peer review, and other third party inspections, the firm's policies and procedures do not ensure the firm will consider the results of those

inspections, identify the systemic cause of issues identified, appropriate remediation of the firm's system of quality control, or monitoring of compliance with revised policies and procedures.

- Deficiencies identified during the peer review can be attributed to multiple quality control elements.
- Pervasive, firm-wide, noncompliance with applicable professional standards was identified during the peer review.

#### *Evaluate Firm Response to MFCs, FFCs, and Deficiencies*

In addition to the indicators described above, the firm's response to MFCs, FFCs, and deficiencies should be evaluated to determine the true systemic cause. If the wrong systemic cause is identified, the firm may not know what part(s) of its system need correction. Reviewers should use professional skepticism and ask probing questions to identify the true systemic cause. At the MFC, FFC, and deficiency level, a firm response of *it was an oversight* or *staff missed it* are not acceptable without further investigation. Reviewers should ask additional questions to understand why it was an oversight or why did staff not follow practice aids and why wasn't it caught before the report was issued. The firm's response to the MFC, FFC, or deficiency should be appropriate to address the systemic cause, including but not limited to the indicators listed above.

#### *Recalled Peer Review Report- Replacement Review Considerations*

Reviewers should consider whether a tone at the top deficiency is present when acceptance of a firm's peer review is recalled. The circumstances that led to the need for a recalled peer review should be considered as well the systemic cause. Using the omission of must select engagements from peer review as an example, reviewers should:

- Consider whether the firm identified and reported the omission to its administering entity or whether the need for recall was identified by another party.
- Consider whether population completeness is an isolated incident or whether there are overarching problems with the firm's system of quality control (or any of the other indicators described above).
- Conclude based on systemic causes identified and not based on the percentage of the firm's practice that was omitted.

#### *Reporting Considerations for Tone at the Top*

Tone at the top weaknesses should be considered and evaluated to determine if it should be a significant deficiency. Often times, it results in a significant deficiency as a tone at the top weakness suggests that a firm's system of quality control is not suitably designed to provide a firm with reasonable assurance of performing or reporting in conformity with professional standards in all material respects, including scenarios where the peer review did not result in any nonconforming engagements. The relative importance of design matters noted in the reviewed firm's quality control policies and procedures, individually and in the aggregate, need to be evaluated in the context of the firm's size, organizational structure, and the nature of its practice. The reviewer should consider whether the weakness should be a finding, deficiency, or significant deficiency.

## **Timeline of Peer Review Process and Significant Events**

See below for a timeline of the approximate timing of significant events occurring during the peer review process. The timeline is intended to highlight that the peer review process requires an investment of time by both the firm and the reviewer. A brief summary of the guidance for each of the significant events is below. For the complete guidance for each of these events, refer to the Standards and Interpretations.

### **Enrollment in the Peer Review Program**

By the report date of the firm's first reviewable engagement, a firm should complete and submit the peer review enrollment materials to the administering entity. Once enrolled, a due date for the firm's initial review is assigned, generally 18 months from the report date of the first engagement causing the firm to be enrolled in the program.

### **Scheduling the Review**

Approximately six to nine months before a firm's review due date, the administering entity will send a firm scheduling form to complete and submit in order for the review to be scheduled. To provide sufficient time to the firm, the peer review should ordinarily be conducted within three to five months after the end of the year to be reviewed. Background information from the completed scheduling forms, such as composition of practice and selected peer reviewer, is entered into an AICPA database accessible by administering entities to determine whether the reviewer is qualified. The administering entity is responsible for approving a reviewer and once approved, the peer review is scheduled, usually within two months after the scheduling forms are received. Approval must be obtained prior to commencement of the review.

### **Performing the Review**

When all requested documents are received by the reviewer from the reviewed firm, they will be evaluated to determine the appropriate report. A closing meeting will be held in which the reviewer will provide preliminary results of the peer review to include, but not be limited to, matters, findings, deficiencies, and significant deficiencies. The closing meeting may need to occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to matters identified in the review and for the team captain/review captain to assess the impact of the firm's responses on the peer review, if any.

The reviewer will then schedule an exit conference prior to, but no later than, the peer review due date. During the exit conference, the final peer review results will be discussed as well as the process following the exit conference, including Report Acceptance Body (RAB) evaluation and acceptance. The peer reviewer is responsible for submitting the peer review working papers to the administering entity and for issuing the report to the firm within 30 days of the exit conference or by the firm's peer review due date, whichever is earlier. Depending upon the results of the review, for example when there were no matters noted that require follow up by the firm, the closing meeting and exit conference may be the same date.

### **Administrative and Technical Reviews**

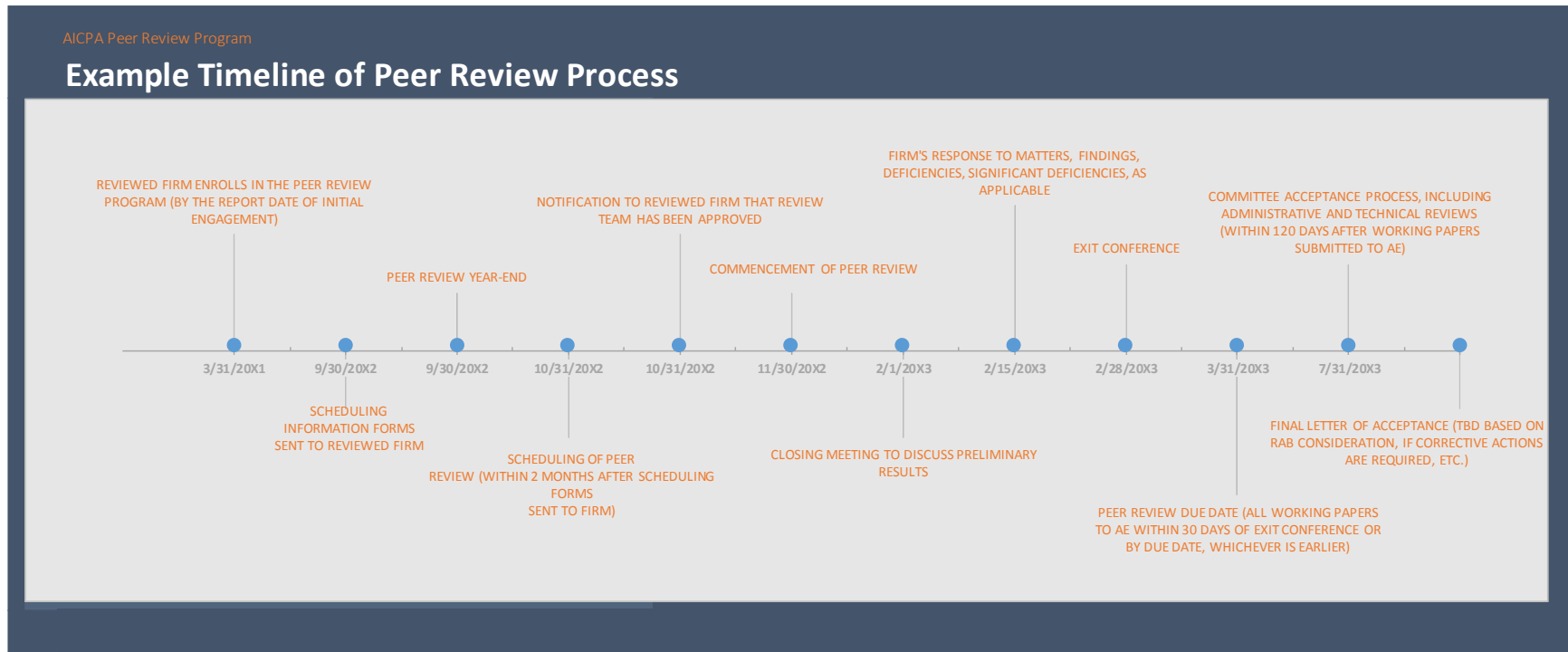
Once the reviewer has completed the review and all materials have been submitted to the administering entity, the working papers will go through an administrative and technical review.

The administrative review ensures all required documents from the reviewer are received and complete. During the technical review, the working papers submitted by the reviewer are evaluated to determine whether the review has been conducted in accordance with the Standards and whether the firm has responded to any matters, findings, deficiencies or significant deficiencies in an appropriate manner.

**Review Evaluation, Acceptance, and Completion**

Upon completion of the technical review, reviews are presented for consideration of acceptance at the RAB meeting with attention given to team captain/review captain and technical reviewer recommendations. Peer reviews are presented ordinarily within 120 days after working papers are received by the administering entity. The RAB reviews the report and applicable supporting documentation and determines if the review can be accepted or if additional conditions must be met. If no corrective actions are necessary, the completion date of the review is the acceptance date. If corrective actions are necessary, the review is considered completed when the firm has performed the corrective actions to the RAB's satisfaction.

## Example Timeline of Peer Review Process



## Section 3300 – RAB Handbook

### Chapter 2

## Technical Reviewer Qualifications and Responsibilities

### IV. Technical Review of System Reviews

- A. For System Reviews, the technical reviewer will ordinarily review the following documents:
1. Peer review report
  2. Letter of response, if applicable
  3. Prior peer review report; letter of response and Finding for Further Consideration (FFC) form, if applicable; firm representation letter and committee decision letters
  4. Summary review memorandum
  5. Disposition of Matter for Further Consideration (DMFC) form, as applicable
  6. Matter for Further Consideration (MFC) and FFC forms, as applicable
  7. Firm representation letter
  - 7.8. When the RAB has delegated the review of A-133 engagement(s) to the technical reviewer(s), the engagement profile and PRP-22100, Part A, Supplemental Checklist for Single Audit Act/A-133 Engagements
  9. Summary of No Answers for the Guidelines for Review and Testing of Quality Control Policies and Procedures

For reviews administered by the National Peer Review Committee (National PRC) (~~System Reviews, quality control material [QCM] reviews, and CPE program reviews~~), in addition to the previously mentioned, the technical reviewer will ordinarily review all other working papers incorporated by reference and, as applicable, including engagement checklists, quality control documents and related practice aids, staff interview or focus group or other interview sessions, planning documents, and any other relevant documents.

- B. The function of the technical review is to evaluate whether the documents reviewed all “hang together,” including the following:
1. Has an appropriate risk analysis been documented?
  2. Did the team captain use a systemic approach?
  3. Do the peer review documents support the type of report and the FFCs?
  4. Does the firm’s letter of response, if applicable, agree with matters discussed in the peer review report, and does it address each deficiency or significant deficiency and applicable nonconforming engagements?
  5. ~~Do the reviewer’s recommendations on the FFC appear appropriate?~~
  5. Does the firm’s planned or taken remediation of nonconforming engagements appear appropriate and in accordance with professional standards?
  6. Does the reviewer’s documentation reflect appropriate consideration of peer review implications of nonconforming engagements and the firm’s response?



67. Do the firm's FFC responses appear appropriate and responsive?
78. Does the DMFC support the disposition of all the MFCs and does the disposition appear appropriate?

C. The technical reviewer should complete the technical reviewer's checklist and include any comments that the RAB may need to properly evaluate the review. This includes the following:

1. Comments on the overall effect of engagement matters, findings or deficiencies or significant deficiencies on the review results. ~~If the reviewer does not "close the loop," the technical reviewer should obtain the information for the committee or RAB. Closing the loop explains the firm's actions (or why it isn't taking any actions) on engagements deemed not to comply with professional standards in all material respects.~~
2. Comments on weaknesses of the peer review working papers so the RAB can properly evaluate the review, the team captain or review team's performance, and the need for feedback.
3. Comments on whether the reviewer identified in the report the underlying systemic cause(s) for any deficiencies or significant deficiencies.
4. Comments on scope of engagements selected for review.
5. Other comments that will help the committee or RAB and are not apparent from the peer review documents. These are matters such as most of the matters, findings or deficiencies relate to one office, one owner, or were only found on certain types of engagements.
6. Comments on engagements not performed or reported on in conformity with professional standards, including the firm's planned or taken remediation, the reviewer's consideration of the nonconforming engagement on the peer review such as scope expansion, potential reporting implications, and if the reviewer adequately considered implications of an unresponsive firm.
7. Comments on whether the firm should be asked to complete certain corrective actions or implementation plans and suggestions on these actions or plans, if applicable.
8. Comments on whether the reviewer identified deficiencies and appropriately distinguished between MFC and FFC.
9. Recommend team captain feedback, if applicable.
10. Whether reviews or FFC implementation plans should be delayed or deferred until documentation has been corrected.
11. Whether there are any contentious issues related to a specific industry or must select engagement which could impact the peer review results. If there are such issues, one member of the RAB must have current experience in that industry.

## V. Technical Review of Engagement Reviews

- A. For Engagement Reviews, the technical reviewer will ordinarily review the following documents:
  1. Peer review report
  2. Letter of response, if applicable
  3. Prior review report; letter of response and FFCs, if applicable; firm representation letter and committee decision letters

- 4. Firm representation letter
- 45. Review ~~captain~~ Captain summary Summary
- 56. DMFC form, as applicable
- 67. MFC and FFC forms, as applicable
- 78. Engagement Summary Form

For committee-appointed review team (CART) peer reviews, in addition to the previously mentioned, the technical reviewer will ordinarily review all other working papers prepared by the review captain.

- C. For Engagement Reviews that require committee or RAB consideration, the technical reviewer should complete the technical reviewer’s checklist and include any comments that the RAB may need to properly evaluate the review. This includes the following:
  - 1. Comments on the evaluation of engagement matters, findings, deficiencies, and significant deficiencies so the RAB can evaluate the appropriateness of the report
  - 2. Comments on weaknesses of the peer review working papers so the RAB can properly evaluate the review and the review captain’s or review team’s performance
  - 3. Comments on engagement selection
  - 4. Comments on engagements not performed or reported on in conformity with applicable professional standards, , including the firm’s planned or taken remediation
  - 5. Comments on the review captain’s performance and the need for feedback
  - 6. Comments on whether, based on RAB handbook guidance, the firm should be asked to complete certain corrective actions or implementation plans and suggestions on these actions or plans, if applicable
  - 7. Comments on whether the reviewer identified deficiencies and appropriately distinguished between MFC and FFC

**Exhibit 2-1 — Evaluation of Technical Reviewer**

Purpose: This evaluation may be used by peer review committees to evaluate the qualifications and competencies of technical reviewers on an annual basis. This form is designed to give technical reviewers positive and constructive feedback.

Technical Reviewer: \_\_\_\_\_

**Part II: To Be Completed by the Committee Chair**

	<i>Yes</i>	<i>No</i>	<i>N/A</i>	<i>Comments</i>
<b>Qualifications:</b>				

- |    |   |                          |                          |                          |       |
|----|---|--------------------------|--------------------------|--------------------------|-------|
| 2. | Does the technical reviewer appear knowledgeable about their role? (RAB handbook, <a href="#">chapter 2</a> )?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    |   |                          |                          |                          | _____ |
| 3. | Is the technical reviewer knowledgeable about the treatment of  |                          |                          |                          |       |
|    | • MFCs, DMFCs, FFCs?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Deficiencies and significant deficiencies?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • <u>Nonconforming engagements?</u>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Monitoring issues?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Governmental issues?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • ERISA issues?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • FDICIA issues?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Broker-dealer issues?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • SOC issues?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Peer review scope?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Report format and content?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • The need for revisions to peer review documents (or not)?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Corrective actions or implementation plans?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
| 4. | Does the technical reviewer complete the applicable technical reviewer checklists and provide the RAB with any comments necessary to properly evaluate the peer review? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    |   |                          |                          |                          | _____ |
|    |   |                          |                          |                          | _____ |
|    | • Comments on the overall effect of <u>engagement matters</u> , findings, deficiencies, and significant deficiencies?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Comments on errors or oversights in the peer review documents in regards to the review team's performance?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Comments on scope?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Comments on the need for reviewer feedback?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Comments on the need for requiring the firm to agree to corrective actions or implementation plans?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |
|    | • Other comments, as necessary?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |

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

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

**SUGGESTED REVIEW PROCEDURES**

	<i>Yes</i>	<i>No</i>	<i>N/A</i>	<i>Comments</i>
1. Read the summary review memorandum (SRM) and the report.				
<i>a.</i> Does the SRM appear to have been properly completed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<i>b.</i> Does the SRM discussion of inherent and control risk factors and detection risk conclusions show an appropriate risk assessment was made and documented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____ _____
<i>c.</i> Based on the documented risk assessment, was a reasonable cross-section of the firm’s practice selected for review? The scope of engagements should consider “must select” engagements, industry concentrations, and other significant or high risk areas of the firm’s practice as well as other areas identified during the review. Consider if a “must select” category is indicated on the Infor-	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____ _____ _____ _____ _____ _____

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

mation Required for Scheduling (Background Information) Form but is not addressed in the risk assessment or engagement statistics.

- |           |   |                          |                          |                          |                         |
|-----------|---|--------------------------|--------------------------|--------------------------|-------------------------|
| <i>d.</i> | If a copy of a referral or Required Corrective Action (RCA) letter relating to allegations or restrictions was sent to the reviewer, did the reviewer appropriately address in the risk assessment?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <i>e.</i> | Was the surprise engagement selected according to the standards and other related guidance?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <i>f.</i> | Does the SRM discuss engagements which were not performed or reported in conformity with applicable professional standards in all material respects?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <i>g.</i> | If the answer to <i>1f</i> is “yes,” does the related documentation by the reviewer and reviewed firm appear to be appropriate? <u>Consider:</u> <ul style="list-style-type: none"> <li>• <u>Did the firm appropriately consider AU-C 560 and 585, AR-C 60 to 90, and ET 1.298.010?</u></li> <li>• <u>Did the reviewer consider the firm’s planned or taken remediation and determine the potential impact on the review?</u></li> <li>• <u>Did the reviewer consider expanding scope to determine the pervasiveness of the issue?</u></li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <i>h.</i> | Is the information in the SRM consistent with other peer review documents, especially the report, and FFCs, if any?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <i>i.</i> | Does the report conform in format and language with the standards and related guidance, including the identification of high risk engagements (if any)?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <i>j.</i> | Were there any deficiencies or significant deficiencies included in the report? ( <u>If “no,” skip to question 2)</u> )   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
|           | (1) <del>For any deficiencies or significant deficiencies included in the report, is the</del>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |

underlying systemic cause appropriately identified? Does the deficiency or significant deficiency description include:

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- Reference to the applicable requirement of Statements on Quality Control Standards
- The scenario that led to the deficiency or significant deficiency.
- Reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable
- Identification of the level of service
- Identification of the applicable industry if industry specific or if related to a nonconforming engagement in a must select industry or practice area

(2) Is the level of service identified for any deficiencies or significant deficiencies? If the deficiencies or significant deficiencies are industry specific, is the industry identified?


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(3) Does the reviewer properly “close the loop” on the overall effect of engagement deficiencies?


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(25) Are any deficiencies or significant deficiencies repeated from the firm’s prior review(s) and, if so, is that fact properly noted?


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(43) Does the firm’s ~~Read the~~ letter of response (LOR) address:


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- Do the firm’s responses in the LOR appear to be comprehensive, genuine, and feasible?
- The firm’s actions taken or planned to remediate nonconforming engagements, if applicable

- The firm's actions taken or planned to remediate deficiencies or significant deficiencies in the firm's system of quality control
- The timing of the remediation

~~(5) Are any deficiencies or significant deficiencies repeated from the firm's prior review(s) and, if so, is that fact properly noted?~~

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

~~(64) If the answer to the previous question is "yes," there are repeat deficiencies or significant deficiencies, is the firm's current response different from its prior response?~~

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

~~(75) Considering the firm's responses, should corrective or monitoring action(s) be recommended to remedy the repeated deficiency?~~

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. a. If the administrative checklist indicates that the firm performs engagement(s) subject to A-133, did the engagement(s) reviewed include an A-133 engagement?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

b. Has [attachment 2](#) of this checklist been completed for A-133 engagement(s)? Please indicate if [attachment 2](#) was completed by a technical reviewer or a report acceptance body (RAB) member.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Read the representation letter. Does the letter conform to the standards and related guidance and include all required representations? If no, obtain revised letter.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Review information in the administrative file. Does it appear that requests for scope limitation waivers, due date extensions, peer review year-end changes, and other matters have been properly considered and documented?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Were there any Finding for Further Consideration (FFC) forms and/or Matter for Further Consideration (MFC) forms? (If "no", skip to question 6) Review the MFC forms, the Disposition of MFC

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



(DMFC) form, and FFC forms, if any, for completeness and, in light of the matters and findings, the reviewed firm's responses.

DMFC

a. Does the DMFC form provide a trail of the disposition of all MFCs, including appropriate explanations, if applicable?    \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Matters

b. Do ~~the~~ matters appear to have been given appropriate consideration in the preparation of the report and FFCs?    \_\_\_\_\_  
 \_\_\_\_\_

c. If a matter was deemed "isolated," did the reviewer appropriately document that determination?    \_\_\_\_\_  
 \_\_\_\_\_

d. Do the reviewer's conclusions ~~and recommendations~~ on the matters (design and compliance) appear proper?    \_\_\_\_\_  
 \_\_\_\_\_

e. Is the MFC written such that specific reviewer, client, or firm names cannot be identified based on the descriptions provided? If not, request the MFC to be revised.    \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

f. If the reviewed firm did not complete the MFC electronically,

- was the hard copy submitted with the peer review working papers?    \_\_\_\_\_  
 \_\_\_\_\_

- was the hard copy completed in its entirety and signed by an appropriate reviewed firm representative (managing partner or peer review contact)?    \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

- does the information on the hard copy MFC match the information entered into PRISM by the reviewer?    \_\_\_\_\_  
 \_\_\_\_\_

Findings

g. ~~Do the firm's FFC responses appear appropriate and responsive? Do the responses in~~    \_\_\_\_\_  
 \_\_\_\_\_

clude a description of how the planned action will be implemented, the person(s) responsible for implementation, the timing of the implementation, and, if applicable, additional procedures to ensure the finding is not repeated in the future? Does the finding description include:

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- Reference to the applicable requirement of Statements on Quality Control Standards
- The scenario that led to the finding
- Reference to nonconforming engagements as a result of the finding, if applicable

h. Does the firm's response address:

- The firm's actions taken or planned to remediate nonconforming engagements, if applicable
- The firm's actions taken or planned to remediate findings in the firm's system of quality control
- The timing of the remediation

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6. Were the required checklists and forms current, and do they appear to have been completed in a professional manner?
7. Do you think the review should be considered for oversight?
8. Have you completed [attachment 1](#), including ensuring the major and minor report codes and engagement statistics prepared by the team captain are correct?
9. Are there any contentious issues related to a specific industry or must select engagement which could impact the peer review results? If yes, indicate the industry and notify the peer review administrator.

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**RECOMMENDATIONS:**

Consider the results of your review of the report, the LOR (if applicable), FFCs (if applicable), and other review documents.

1. Do you recommend that the report, LOR (if applicable), and FFCs (if applicable) be accepted as submitted?  Yes  No

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

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2. Do you recommend that the reviewed firm be asked to agree to certain corrective actions so that the committee can monitor the firm's progress in correcting the deficiencies or significant deficiencies noted in the report?  Yes  No  N/A

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

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

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

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4. Did you identify one or more reviewer performance deficiencies?  Yes  No If reviewer performance deficiencies are noted, team captain feedback should be recommended to the report acceptance body even if the answer to 5 is "yes."

5. Did you identify significant reviewer performance deficiencies or a pattern of reviewer performance deficiencies?  Yes  No The Peer Review Committee should be notified when such situations are identified so that appropriate action can be taken.

If yes, please describe.

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### **Attachment 1**

### **SYSTEM REVIEW COMPLETION INFORMATION**

**INFORMATION TO BE COMPLETED BY THE TECHNICAL REVIEWER**

1. Review number	_____	<p align="center"><b>TABLE 1 MAJOR REPORT CODES</b></p> <p>1. <i>Pass</i> 3. <i>Pass With Deficiencies</i> 7. <i>Fail</i></p>
2. Reviewed firm name	_____	
3. Number of offices	_____	
4. Number of partners	_____	
5. Number of personnel (including partners)	_____	<p align="center"><b>TABLE 2 MINOR REPORT CODES</b></p> <p>350 Leadership Responsibilities for Quality Within the Firm ("the Tone at the Top") 351 Relevant Ethical Requirements 352 Engagement Performance 353 Human Resources 354 Acceptance and Continuance of Client Relationships and Specific Engagements 355 Monitoring</p>
6. Major report code (Table 1)	_____	
7. Minor report codes (Table 2)	_____	
8. Report with scope limitation?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
9. Review classification (Table 3)	_____	
10. Review period covered	From _____ To _____	
11. Range of audits and examinations under SSAEs (Table 4)	_____	<p align="center"><b>TABLE 3 REVIEW CLASSIFICATION</b></p> <p>1. Easy 2. Moderate difficulty 3. Difficult</p>
12. Does the firm perform: (Y/N)		
Reviews	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Compilations with disclosures	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Compilations without disclosures	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Preparations with disclosures	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Preparations without disclosures	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Engagements under the SSAEs, excluding examinations	<input type="checkbox"/> Yes <input type="checkbox"/> No	<p align="center"><b>TABLE 4 RANGE OF ENGAGEMENTS</b></p> <p>A. None B. 1-5 C. 6-9 D. 10 or more</p>
13. Number of MFCs	_____	
14. Number of FFCs	_____	
15. Technical reviewer's initials	_____	
16. Date technical review completed	_____	

**Exhibit 2-3 — AICPA PEER REVIEW PROGRAM ENGAGEMENT REVIEW TECHNICAL REVIEWER'S CHECKLIST**

Name of Reviewed Firm	_____	Review Number	_____
Review Captain	_____	Date Report Submitted <sup>fn 3</sup>	_____
Name of Technical Reviewer	_____	Date of Technical Review	_____

<sup>fn 3</sup> Date team captain submitted report if a peer review rating of pass or pass (with a scope limitation) or date the firm submitted the report and letter of response if a peer review rating of pass with deficiencies or fail.

Rating of Firm's Current Report

Current Year-End

Rating of Firm's Prior Report

Prior Year-End

**SUGGESTED REVIEW PROCEDURES**

	<i>Yes</i>	<i>No</i>	<i>N/A</i>	<i>Comments</i>
1. Scan the review captain summary:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
				_____
<i>a.</i> Does it appear all procedures were completed and that the review captain's involvement was appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
				_____
<i>b.</i> If a copy of a referral or Required Corrective Action (RCA) letter relating to allegations or restrictions was sent to the reviewer, did the reviewer appropriately address in the review captain summary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
				_____
2. Read the report. Does it conform in format and language with the standards and related guidance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
3. Were there any deficiencies or significant deficiencies included in the report? <u>(If "no," skip to question 4)</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
<i>a.</i> Is the level of service identified for any deficiencies or significant deficiencies? If the deficiencies or significant deficiencies are industry specific, is the industry identified?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
				_____
<i>b.</i> If the exact same deficiency was evident on all the reviewed engagements, was a peer review report with a rating of fail issued?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
				_____
<i>c.</i> Read the letter of response (LOR). Do the firm's responses in the LOR appear to be comprehensive, genuine, and feasible <u>and does it address the firm's actions taken or planned to remediate nonconforming engagements?</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____
				_____
<i>d.</i> Are any deficiencies or significant deficiencies repeated from the firm's prior peer review(s) and, if so, is that fact properly noted?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
				_____

- |   |                          |                          |                          |                         |
|---|--------------------------|--------------------------|--------------------------|-------------------------|
| <p>e. If “yes,” is the firm’s current response different from its prior response? If it is the same, consider recommending corrective or monitoring action(s).</p>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <p>4. Read the representation letter. Does the letter conform to the standards and related guidance <u>and include all required representations</u>? If no, obtain revised letter.</p>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <p>5. Review information in the administrative file. Does it appear that requests for due date extensions, peer review year-end changes, and other matters have been properly considered and documented?</p>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <p>6. Scan the review documents:</p>  |                          |                          |                          |                         |
| <p>a. Were the required questionnaires, checklists, and forms current, and do they appear to have been completed in a professional manner?</p>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <p>b. Based on the summarized information showing the number of engagements and the nature of service provided, do the engagements selected for review conform to the standards?</p>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <p>7. Were there any Finding for Further Consideration (FFC) forms and/or Matter for Further Consideration (MFC) forms? (If “no”, skip to <u>question 8</u>) Review MFC forms, FFC forms (if any), and the Disposition of MFC (DMFC) form for completeness and, in light of the findings, the reviewed firm’s responses—</p> <p><u>DMFC</u></p> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <p>a. Does the DMFC form provide a trail of the disposition of all MFCs, including appropriate explanations, if applicable?</p>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |
| <p><u>Matters</u></p>   |                          |                          |                          |                         |
| <p>b. Do the reviewer’s conclusions <del>and recommendations</del> on the matters appear proper?</p>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <hr/> <hr/> <hr/> <hr/> |

- |    |  |                          |                          |                          |       |       |
|----|--|--------------------------|--------------------------|--------------------------|-------|-------|
| c. | Do the matters appear to have been given appropriate consideration in the preparation of the report and FFCs?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |
| d. | Is the MFC written such that specific reviewer, client, or firm names cannot be identified based on the descriptions provided? If not, request the MFC be revised. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |
| e. | If the reviewed firm did not complete the MFC electronically,  |                          |                          |                          |       |       |
|    | • was the hard copy submitted with the peer review working papers?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |
|    | • was the hard copy completed in its entirety and signed by an appropriate reviewed firm representative (managing partner or peer review contact)?                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |
|    | • does the information on the hard copy MFC match the information entered into PRISM by the reviewer?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |

Findings

- |    |   |                          |                          |                          |       |       |
|----|---|--------------------------|--------------------------|--------------------------|-------|-------|
| f. | Do the firm's FFC responses appear appropriate and responsive? Do the responses include a description of <del>how</del> <u>the firm's actions taken or planned to remediate the findings, #, including timing of the remediation and additional procedures to ensure the finding is not repeated in the future.</u> <del>planned action will be implemented, the person(s) responsible for implementation, the timing of the implementation, and, if applicable, additional procedures to ensure the finding is not repeated in the future?</del> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |
| 8. | Do you think the review should be considered for oversight?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ |       |
| 9. | Have you completed <a href="#">attachment 1</a> , including ensuring the major report codes and engagement statistics prepared by the review captain are correct?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |



10. Does this review meet the criteria to be accepted by the technical reviewer or committee within 60 days of receipt of the working papers and report from the review captain?    \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**RECOMMENDATION:**

Consider the results of your review of the report, the LOR (if applicable), FFCs (if applicable), and other review documents.

1. Do you recommend that the report, LOR (if applicable), and FFCs (if applicable) be accepted as submitted?  Yes  No

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

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2. Do you recommend that the reviewed firm be asked to agree to certain corrective actions so that the committee can monitor the firm's progress in correcting the deficiencies or significant deficiencies noted in the report?  Yes  No  N/A

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

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

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

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4. Did you identify one or more reviewer performance deficiencies?  Yes  No If reviewer performance deficiencies are noted, team captain feedback should be recommended to the report acceptance body even if the answer to 5 is “yes.”
5. Did you identify significant reviewer performance deficiencies or a pattern of reviewer performance deficiencies?  Yes  No The Peer Review Committee should be notified when such situations are identified so that appropriate action can be taken.

If yes, please describe.

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## Chapter 3

### The Report Acceptance Process

#### II. Preparation for a RAB Meeting

- A. Ordinarily, a majority of meeting materials should be provided in advance to the date of the meeting, in order to allow every RAB member adequate time to read the documents and be prepared to discuss the reviews being considered for acceptance. The meetings can be conducted in person or via conference call. The following documents should be included in the package:
  1. Peer review report
  2. Letter of response, if applicable
  3. Prior review report; letter of response and Finding for Further Consideration (FFCs) forms, if applicable; firm representation letter and prior review’s required corrective action(s) or implementation plans, if applicable
  4. Technical reviewer’s checklist
  5. Summary Review Memorandum—System Reviews
  6. Disposition of Matter for Further Consideration (DMFC) form , as applicable
  7. For reviews that include A-133 engagement(s), the engagement profile and PRP-22100, Part A, Supplemental Checklist for Review of Single Audit Act/A-133 Engagements.\* (See the following note.)
  8. Review Captain Summary—Engagement Reviews
  9. Matter for Further Consideration (MFC) forms, as applicable
  10. Findings for Further Consideration (FFC) forms, as applicable
  11. Firm’s representation letter
  12. Summary of No Answers for the Guidelines for Review and Testing of Quality Control Policies and Procedures, as deemed necessary by the technical reviewer—System Reviews

\*Note: The report acceptance body may delegate the completion of attachment 2 of the Technical Reviewer's Checklist ([exhibit 2-2](#)) for an A-133 engagement(s) to a technical reviewer(s) if the technical reviewer has completed eight hours of continuing professional education (CPE) related to OMB Circular A-133 in the last two years.

### III. Review Acceptance Considerations

Based on its review and discussion of the peer review documents, the RAB should

- A.
- consider whether the review has been performed in accordance with the standards, interpretations, and related guidance materials. For instance, did the team captain or review captain perform an adequate review?
  - for System Reviews, did the team captain focus on the reviewed firm's system of quality control for the accounting and auditing practice and, as a result, avoid focusing on the engagements reviewed?
  - for System Reviews, discuss whether the Summary Review Memorandum contained
    - an appropriate risk assessment that properly documents inherent and control risks related to the reviewed firm's accounting and auditing practice and its system of quality control
    - an appropriate selection of engagements in response to the risk assessment and designed to test a reasonable cross section of the firm's engagements with a focus on high risk engagements, in addition to significant risk areas
    - a discussion of excluded engagements, if any
    - a discussion of isolated deficienciesmatters, if any, with explanation of additional procedures performed to determine they were isolated
    - a discussion of consideration of a different type of report if a significant degree of judgment has been exercised in determining the review results
    - a discussion of nonconforming engagements, assessment of the firm's remediation of such engagements, and impact to the peer review, including scope expansion implications
  - should the team captain or review captain be provided with feedback on his or her performance? See [chapter 8](#) for further guidance.
- B.
- consider whether the report and the response thereto, if applicable, are in accordance with the standards, interpretations, and related guidance materials.

~~including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its letter of response.~~ This includes, but may not be limited to the following: Was the appropriate type of report issued?

- ~~For a report rating *pass with deficiencies* or *fail*, do the recommendations of the team captain or review captain address those deficiencies or significant deficiencies adequately, and does the reviewed firm's response appear comprehensive, genuine, and feasible, including time frames on any actions the firm may be taking?~~

- Does the deficiency or significant deficiency description include:
  - Reference to the applicable requirement of Statements on Quality Control Standard—System Reviews
  - The scenario that led to the deficiency or significant deficiency,
  - Reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable
  - Identification of the level of service
  - Identification of the applicable industry if industry specific or if related to a nonconforming engagement in a must select industry or practice area
- Does the firm's letter of response include:
  - The firm's actions taken or planned to remediate nonconforming engagements, if applicable
  - The firm's actions taken or planned to remediate deficiencies or significant deficiencies in the firm's system of quality control—System Reviews
  - The timing of the remediation

C. decide appropriate, remedial corrective actions related to the deficiencies or significant deficiencies noted in the report, in addition to those described by the reviewed firm in its letter of response. Guidance for determining when and what type of corrective action(s) to require, given a set of circumstances, is contained in [chapter 4](#) and [chapter 5](#) for System and Engagement Reviews, respectively. [Chapter 6](#) contains guidance for monitoring corrective action(s), determining when to require additional corrective actions when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required corrective action(s) or refuses to cooperate.

D. in relation to FFCs,

1.
  - consider whether FFC (and associated MFC and DMFC) forms are prepared in accordance with these standards, interpretations, and related guidance materials, including whether the findings addressed on the FFC forms should have been included in a report with a peer review rating of *pass with deficiencies* or *fail*. For instance, do the FFC (and associated MFC and DMFC) forms appear appropriate and complete?

The peer reviewer may use his or her professional judgment in writing the description of the finding ~~and recommendation~~ contained in the FFC form. As long as it is completed in its entirety, includes the essential elements, is written in an understandable manner and contains an appropriate response from the firm, the administering entity ordinarily would not request revisions to these forms. The FFC form should include:

- Reference to the applicable requirement of Statements on Quality Control Standards—System Reviews
- The scenario that led to the finding
- Reference to nonconforming engagements as a result of the finding, if applicable

2.
  - determine the adequacy of the reviewed firm’s plan it represents has been or will be implemented in its response on the FFC form(s). For instance is each finding appropriately addressed?
  - ~~does the firm’s response include: describe how the firm intends to implement the reviewer’s recommendation (or alternative plan if the firm does not agree with the recommendation), the person(s) responsible for implementation, the timing of the implementation, and, if applicable, additional procedures to ensure the finding is not repeated in the future?~~
    - The firm’s actions taken or planned to remediate nonconforming engagements, if applicable
    - The firm’s actions taken or planned to remediate findings in the firm’s system of quality control—System Reviews
    - The timing of the remediation

## V. Criteria for Delayed Acceptance or Deferral

### C. Guidelines for Requesting Revised Documents

The following are guidelines RABs should consider in determining whether to request revisions to peer review documents.

1. Peer Review Reports and Letters of Response
  - Revisions should be requested for significant departures from the standard report formats.
  - for failure to indicate that a deficiency or significant deficiency is a repeat comment noted on a prior peer review.
  - to correct misleading grammar or excessively ambiguous language.

- to correct misquoted professional literature or references to professional standards, or both, unrelated to the subject matter.
- where an incorrect type of report has been issued or the report omits deficiencies or significant deficiencies ~~or a related recommendation, or both.~~
- where the firm’s letter of response does not appropriately address deficiencies or significant deficiencies and nonconforming engagements, including responses that are unacceptably noncommittal, vague, or otherwise unclear or not responsive.
- ~~where for System Reviews, a deficiency or significant deficiency identifies departures from professional standards but does not “close the loop” (that is, there should be an indication of whether the financial statements were misleading [AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, Professional Standards)], or additional procedures had to be performed to support the report rendered [AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* (AICPA, Professional Standards)] or what actions the firm has taken or planned in response to AU-C section 560 or AU-C section 585).~~
- to revise deficiencies or significant deficiencies that appear to set standards higher than those mandated by professional standards.
- for System Reviews, to revise deficiencies or significant deficiencies that are not written systemically, or the ~~underlying~~ systemic causes are not clear.
- ~~for System Reviews, where the team captain’s recommendation for a quality control design deficiency or significant deficiency appears to be written as a quality control compliance related deficiency or significant deficiency, or vice versa. (That is, the design vs. noncompliance focus of the recommendation must correspond to the deficiency or significant deficiency.~~
- for failure to identify the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific or related to a nonconforming must select engagement.

## 2. FFC Forms

- Revisions should be requested for forms not completed properly or fully (that is, reference to professional standards not provided, individual MFCs not identified, type of matter, repeat finding, and so on).

- the reviewer’s description of the finding is not clear and, on System Reviews, does not include the underlying systemic cause of the finding.
- ~~the reviewer’s recommendation does not address the finding adequately.~~
- the reviewed firm’s response ~~to the reviewer’s recommendations (or alternative plan if the firm does not agree with the recommendation)~~ does not appear comprehensive, genuine, and feasible or does not include all of the required elements, including a description of how the firm intends to implement the reviewer’s recommendation, the person(s) responsible for implementation, the timing of the implementation, and, if applicable, additional procedures to ensure the finding is not repeated in the future.
- forms not signed by an authorized representative of the reviewed firm.

### 3. MFC Forms

- Revisions should be requested for forms not completed properly or fully (that is, inappropriate firm or client references in descriptions, incomplete hard copies, different information provided on signed hard copies and electronic copies, and so on).
- the firm did not appropriately assess systemic cause of the matter or provided a limited response of “oversight” or “isolated” instead of providing sufficient detail to understand how they arrived at that conclusion.

### 34. Reviewer Feedback Forms

- Reviewer feedback forms should be issued in lieu of requesting revised documents for the following: System Review report deficiencies or significant deficiencies contain a reference to the specific number of engagements where the matters were noted rather than using general terms such as *few* or *some*.
- Multiple deficiencies or significant deficiencies comments could have been combined.
- ~~Recommendations that are inappropriate based on the firm’s size or other characteristics, but the firm is responsive to the recommendations.~~
- Deficiencies or significant deficiencies where the reviewed firm understands the substance ~~and the related recommendation(s)~~ and responds appropriately, but where the deficiency, significant deficiency, or comment is not written clearly.



Refer to the section on reviewers' performance in [chapter 8](#) for more information on the use of feedback forms.

## Chapter 4

### Objectives, Overview of System Review Process, and Evaluation and Acceptance of System Reviews

#### II. Expanded Overview of Objectives on a System Review and Where Team Captains and Report Acceptance Bodies Need to Focus

The focus of a System Review is on the design and compliance with the firm's system of quality control. This requires the team captain to get-obtain a sufficient understanding of the firm's system of quality control (for all of the elements discussed in the SQCS No. 8). ~~This understanding is obtained and~~ by performing a variety of procedures to determine if the system is designed appropriately and that the firm's degree of compliance is acceptable. The focus is not simply determining how many engagements do not conform with professional standards in all material respects. ~~Reviewing an audit using the audit engagement checklist and determining that because there are multiple "no" answers to checklist questions (and that, as a result, the audit was not performed in accordance with professional standards in all material respects) when viewed non-systemically, usually tells the reviewer absolutely nothing about the firm's system of quality control.~~ Team captains must understand the firm's system of quality control ~~and assess where the firm's risks are initially to evaluate to perform a proper risk assessment and to make~~ the appropriate engagement; ~~office, and partner selections; and (for any such situations like on the audit engagement mentioned)~~ A proper understanding of the firm's system of quality control is also necessary to determine the ~~underlying~~ systemic cause of ~~the problems.~~ matters identified.

~~For example, if several~~ If the firm personnel tell ~~tells~~ the team captain ~~that they were it was~~ unaware of a new audit or accounting standard, that probably explains much about the design (or lack thereof) of the firm's system of quality control, or the firm's compliance with an ~~acceptably~~ appropriately designed system, and should ~~provide a clue as to be more than a hint about~~ what else the team captain may discover.

Likewise, ~~If~~ through interviewing the leadership of the firm and its staff, the team captain determines that the leadership in the firm has done nothing to promote an internal culture recognizing that quality is essential in performing engagements, and there are no established policies to support that culture, then the firm's system of quality control is not designed appropriately in accordance with professional standards.

These are just two examples ~~where-in which~~ firms have ~~problems-with~~ weaknesses in their systems of quality control. More often, a firm has an appropriately designed system of quality control but fails to comply with that system and, as a result of its noncompliance, one or more engagements are not performed in accordance with professional standards. ~~Much too frequently, although team captains identify what the firm's policies and procedures are and identify the problems on engagements, they fail to make the link about why engagement problems occurred or were undetected, or both, in the firm's review procedures (the underlying systemic reasons for the problems).~~ The team captain, in collaboration with the firm, should determine the weakness in the firm's system of quality control that allowed a matter, such

as a nonconforming engagement, to occur or go undetected and then will determine if the matter is pervasive or isolated. ~~Report acceptance bodies (RABs)~~ are responsible for ensuring that the team captain has performed the peer review in accordance with the standards, and this includes ensuring, when possible, that team captains, in collaboration with the firm, have identified the “why” (systemic causes) before a System Review is accepted.

Conceptually, the peer review standards have always focused on the system of quality control. Proper application of the standards assists team captains in evaluating ~~what they find matters~~ and, as a result, the type of report to issue. This is a difficult process that always requires professional judgment, but there is an expectation that team captains will determine why a firm is not complying with professional standards in all material respects, in each circumstance ~~where-in which~~ it is reasonably possible to do so. ~~Based on the answers to these systemic oriented inquiries~~ By following the standards, the team captain is led through the thought process of how the identified systemic ~~issues-causes~~ affect the nature of the peer review report. This synthesis process is also critical to facilitate a fair and more consistent evaluation of peer review results.

### III. System Review Process

It is critical that peer reviewers and RAB members have the same understanding of the process. Paragraph .38 of the standards contains an outline, which isn’t necessarily all inclusive, of the procedures that should be included in the review.

- A. Key components of a System Review include the planning considerations (sec. 1000 par. .39–.40), understanding the firm’s accounting and auditing practice and system of quality control (sec. 1000 par. .41–.45), understanding and assessing peer review risk factors (sec. 1000 par. .46–.52) and planning and performing compliance tests (sec. 1000 par. .53–.68).
- B. A broad understanding of the peer review process, from the preliminary evaluation of the design of the system of quality control, to the tests of compliance, to the decision making process of determining whether an item noted during a System Review is a matter, finding, deficiency, or significant deficiency, is shown in paragraph .71 (exhibit A) of the standards. Exhibit A also illustrates the aggregation of these items, where those items are documented in the practice aids, and how they might affect the type of report issued. Exhibit A of the standards is included as [exhibit 4-1](#) of this chapter. Another tool to assist you in understanding the peer review process is the model at [exhibit 4-1a](#).
- C. Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

In understanding the firm’s system of quality control, the team captain may note that the system is not designed appropriately. Similarly, the performance of compliance tests may uncover that the system is not being complied with appropriately or may identify a design weakness that was not identified during the planning of the peer review (sec. 1000 par. .69). It is extremely important for the team captain to (1) determine if the firm’s system of quality control is designed appropriately and (2) be able to link what is identified in compliance tests to

why (~~underlying~~-systemic cause) the matters that developed and went unresolved during the engagement.

Determining the relative importance of matters noted during the peer review, individually or combined with others, requires professional judgment (sec. 1000 par. .70) and is critical in ultimately determining the type of report to issue.

The descriptions that follow, used in conjunction with practice aids (that is, MFC, DMFC, and FFC forms) to document these items, when applicable, are intended to assist in aggregating and evaluating the peer review results, concluding on them, and determining the nature of the peer review report to issue (sec. 1000 par. .70). *This should not be confused with the concept of aggregating “no” answers on a specific engagement to determine whether an engagement was performed and reported on in conformity with professional standards in all material respects.*

#### D. Definitions to Assist with Classifying Peer Review Results

Each *matter* is evaluated in a sequential process to determine if it should be raised to the next level. This means that all items start out as *matters* and are evaluated individually and in aggregate to see if it qualifies to be considered for the next level. *Matters* are evaluated to see if they become *findings*, then *findings* are evaluated to see if they become *deficiencies*, and *deficiencies* are evaluated to see if they become *significant deficiencies*.

Because this is critical in determining the type of report to issue and to facilitate a consistent peer review process, the following definitions apply:

1. A peer reviewer notes a *matter* as a result of his or her evaluation of the design of the reviewed firm’s system of quality control or tests of compliance, or both, with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm’s system of quality control. Matters are typically one or more “no” answers to questions in a peer review questionnaire(s) that a reviewer concludes warrant further consideration in the evaluation of a firm’s system of quality control. A matter is documented on a MFC form (sec. 1000 par. .70a).
2. A *finding* is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer must subsequently conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form (sec. 1000 par. .70b).

*It is very important to note that a finding now has systemic definition (whereas a matter does not have a systemic definition) and is a very critical threshold. Findings (which are ultimately determined not to be deficiencies) are not addressed in the peer review report.*

3. A *deficiency* is one or more findings that the peer reviewer has concluded that, due to the nature, **systemic** causes, pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies* (sec. 1000 par. .70c).
4. A *significant deficiency* is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of *fail* (sec. 1000 par. .70d).  
[Exhibit 4-1](#) illustrates the aggregation of these items, where items are documented in the practice aids, and how they might affect the type of report issued. [Exhibit 4-1a](#) gives an illustration of the thought process a team captain might go through in the aggregation and systemic evaluation of matters noted on a System Review and the determination of the type of report to issue.

E. Type of Matters in a System Review

**Design matters.** A design matter exists when the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would not result in engagements performed or reported on in accordance with professional standards in some respect (sec. 1000 par. .77).

**Compliance matters.** A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Because a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects (sec. 1000 par. .80).

F. Consideration of Nature, **Systemic** Causes, Pattern, and Pervasiveness of Matters

The review team must consider the pattern and pervasiveness of matters and their implications for compliance with the firm's system of quality control as a

whole, in addition to their nature, systemic causes, and relative importance in the specific circumstances in which they were observed (sec. 1000 par. .86).

1. Determination of Why the Matters Occurred (the ~~underlying~~-systemic cause)

The review team's first task, in collaboration with the firm, is to try to determine why the matters occurred. Causes that might be systemic and might affect the type of peer review report issued include, but are not limited to, the following (sec. 1000 par. .83):

- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance (sec. 1000 par. .83a).
- b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice (sec. 1000 par. .83b).
- c. The failure should have been detected if the firm's quality control policies and procedures had been followed (sec. 1000 par. .83c).
- d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge. In some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion (sec. 1000 par. .83d).

2. Pattern and Pervasiveness of Matters

In some cases, there may be a pattern of noncompliance with a quality control policy or procedure such as when firm policy requires the completion of a financial statement disclosure checklist, but such checklists often were not used or relevant questions or points were incorrectly considered. That increases the possibility that the firm might not perform or report in conformity with applicable professional standards in all material respects, which also means that the reviewer must consider carefully whether the matter(s) individually or in the aggregate is (are) a finding, deficiency or significant deficiency. ~~to issue a peer review report with a peer review rating of *pass with deficiencies* or *fail*~~. On the other hand, the types of matters noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the matters were isolated cases of human error that should not result in a peer review report with a peer review rating of *pass with deficiencies* or *fail* (sec. 1000 par. .86) and, accordingly, a report with a peer review rating of *pass* is appropriate.

G. Evaluation and Consideration of Deficiencies and Findings Identified in the Firm's Previous System Review

Repeat deficiencies<sup>fn 5</sup> are those deficiencies or significant deficiencies that were identified in the current report that were also noted in the report issued on the firm's previous review. A "repeat" determination is based on the underlying systemic cause of the deficiencies or significant deficiencies. The preceding also applies when the deficiency or significant deficiency noted during the current review was caused by the same system of quality control weakness noted on a FFC form in the prior review. A repeat finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it that is noted during the current review and also on a FFC form in the prior peer review.

1. For potential repeat deficiencies, if corrective actions have been implemented and the same deficiency or significant deficiency is occurring, the review team, in collaboration with the firm, should determine the weakness in the firm's system of quality control that is causing the deficiency or significant deficiency to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm's system of quality control. If the ~~underlying systemic~~ cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

The preceding also applies when the deficiency or significant deficiency noted during the current review was caused by the same system of quality control weakness noted on a FFC form in the prior review. The team captain should consider if the firm's planned actions to remediate the prior review findings were implemented, including implementation plans or those discussed in the firm's response on the FFC form. If the prior remedial actions appear to be effective, the current deficiency may be caused by some other weakness in or compliance with the firm's system of quality control. If the underlying systemic cause of the deficiency is different from that noted in the prior review, it would not be a repeat. If the underlying systemic cause is determined to be the same, under these circumstances, it would still be appropriate to use the same wording as previously described "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review." If the systemic cause is the same, the review team should also consider whether there are deficiencies in other elements of quality control.

2. For potential repeat findings, the review team should read the prior review documentation, including the report, letter of response and FFC forms, if applicable, and evaluate whether the firm's planned actions noted on those forms were implemented. If the firm's planned actions to remediate the prior

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<sup>fn 5</sup> Wording should always say, "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review(s)."



review findings were implemented and the same finding is occurring, the review team should determine the condition in or compliance with the firm's system of quality control that caused the current finding. If it is determined to be the same systemic cause, the FFC form should indicate that similar findings were noted in the prior review. The review team should also consider whether there are findings in other elements of quality control. If the prior remedial actions (corrective actions or implementation plans as discussed in the firm's response on the FFC form) appear to be effective, the finding may be caused by some other condition in or compliance with the firm's system of quality control. If the ~~underlying systemic~~ cause of the finding is different from that noted in the prior review, it would not be a repeat.

3. When repeat deficiencies are noted as occurring for the third time or more, the report should include a sentence that the deficiency has occurred on previous reviews.
4. A RAB's conclusions and actions regarding the repeat deficiencies could be affected by several factors, including the reason for the repeat deficiencies, the firm's response to the repeat deficiencies, and whether corrective action was requested on the prior review, type of action requested, and whether it was completed. See [section V](#).

#### IV. Types and Consideration of Reports to Issue in a System Review

##### A. Report Rating—*Pass*

A report with a peer review rating of *pass* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, significant deficiencies, ~~or recommendations~~. In the event of a scope limitation, a report with a peer review rating of *pass* (with a scope limitation) is issued (sec. 1000 par. .88).

##### B. Report Rating—*Pass With Deficiencies*

A report with a peer rating of *pass with deficiencies* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency (deficiencies) that is (are) described in the report. The deficiency (deficiencies) is (are) conditions (a condition) related to the firm's design of and compliance with its system of quality control that could create a situation in which the firm would have less than reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the deficiency (deficiencies) to the quality control system taken as a whole. In the event of a scope limitation, a



report with a peer review rating of *pass with deficiencies* (with a scope limitation) is issued (sec. 1000 par. .89).

C. Report Rating—*Fail*

A report with a peer review rating of *fail* should be issued when the team captain has identified a significant deficiency (deficiencies) and concludes that the firm's system of quality control is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In the event of a scope limitation, a report with a peer review rating of *fail* (with a scope limitation) is issued (sec. 1000 par. .90).

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

The guidance in this chapter is to assist RABs in determining when and what type of corrective action(s) or implementation plans a firm should be required to take given a set of circumstances on a System Review. [Chapter 6](#) contains guidance for monitoring corrective action(s) or implementation plans, determining when to require additional corrective actions or implementation plans when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required corrective action(s) or implementation plans or refuses to cooperate.

The decision of whether to require corrective action(s) or implementation plans and deciding on what actions or procedures are appropriate is a matter of professional judgment that each RAB makes based on the applicable facts and circumstances. RABs should consider this guidance but may need to consider alternative corrective actions more suited for the situation.

The RAB should not instruct reviewed firms to perform omitted procedures, to reissue accounting or auditing reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. Firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are appropriate, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

If the firm determines that omitted procedures will be performed, that notifications will be made to those relying on the reports, or that financial statements will be revised or reissued prior to the peer reviewer's conclusion on the engagement or conclusion on the peer review, it is not expected that these actions will be completed before the peer review concludes. However, the firm's response should include its intention to perform these steps, if known. The RAB may require follow up action to evaluate the firm's follow through on the intended or alternative steps taken. However, the firm's actions in these respects may affect other corrective actions or implementation plans the committee may impose.

When the reviewer identifies an engagement not performed or reported on in conformity with applicable professional standards in all material respects, the team captain should thoroughly evaluate the reviewed firm's considerations and decision with due consideration of applicable professional standards to determine whether a corrective action or implementation plan should be suggested. The firm's considerations should include whether to perform and document omitted procedures to support a previously issued report, whether to reissue reports, whether to have previously issued financial statements revised and reissued, or whether to remediate the subsequent engagement. The firm should include the summary of these considerations and conclusions in its response, generally documented on a MFC form. If the reviewed firm's response is appropriately documented and the reviewer has reviewed the actions taken prior to the peer review submission for acceptance, then further committee action is not necessary related to the specific engagement.

If the team captain concludes that the reviewed firm's considerations and response are proper and appropriately documented and the firm indicates in its response that it intends to complete omitted procedures, to reissue the report, or to have previously issued financial statements revised and reissued, the RAB should consider whether the firm's response is genuine, comprehensive, and feasible. The RAB also should ordinarily consider whether to impose a monitoring action (corrective action or implementation plan, as applicable) requiring that the reviewed firm agree to submit evidence to an outside party acceptable to the RAB of performing and documenting the omitted procedures or of reissuing the report, if appropriate. This type of monitoring action is applicable only in instances in which an engagement not performed or reported on in conformity with applicable professional standards in all material respects supports a deficiency or an initial finding for further consideration (FFC) in a must-select industry or supports a repeat FFC in any industry. If such an engagement does not support a deficiency or a FFC in a must-select industry or a repeat FFC in any industry, the RAB should evaluate the firm's considerations and actions planned or taken and the reviewer's assessment to determine whether revisions to the MFC form or other peer review documents are necessary before the review is accepted.

When the RAB deems that the reviewed firm's response is not sufficient (genuine, comprehensive, and feasible) or has substantial reason to challenge the firm's documented considerations or the reviewer's assessment of the firm's response to address an engagement not performed or reported on in conformity with professional standards in all material respects, the RAB should defer acceptance of the review pending revisions or additional information to resolve the matter. If the RAB determines that the firm has not properly considered applicable professional standards to address such an engagement, the firm's actions may affect other corrective actions or implementation plans that the committee may impose, or they may cause the RAB to not accept the peer review and consider that the firm is not cooperating with the peer review program. Additionally, if the team captain or RAB concludes that the firm's response and consideration of the applicable standards is not appropriate to address the nonconforming engagement, the team captain should evaluate whether there are other weaknesses in the firm's system. For example, an inappropriate response may be indicative of a potential failure to comply with the leadership or tone at the top element in the firm's system of quality control. A failure to properly consider how to address nonconforming engagements may indicate an internal firm culture that fails to promote that quality is essential in performing engagements.

- 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.
  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 implementation 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 require the firm allow the team captain or someone acceptable to the RAB to review completion of its intended remedial actions outlined in its letter of response or evaluate appropriateness of alternative actions.

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

(1) Require 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 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) 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).
4. System Review Finding for Further Consideration Form(s)
- a. Unless a nonconforming engagement is included as part of the finding, a RAB ordinarily would not require an implementation plan for a firm when its responses to the findings addressed on the FFC form(s) are comprehensive, genuine, and feasible. RABs may not be able to determine if responses are comprehensive, genuine, and feasible if the reviewed firm does not describe ~~how it intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation, the timing of the implementation and, if applicable, additional procedures to ensure the finding is not repeated in the future. the firm's actions taken or planned to remediate findings in the firm's system of quality control and nonconforming engagements, if applicable, and the timing of the remediation.~~ If the responses are not comprehensive, genuine, and feasible, the RAB should have the firm revise its responses. An implementation plan is not required if the finding includes a nonconforming engagement, however, if the firm's remediation of the engagement was not reviewed or understood by the team captain, it is strongly encouraged. If the RAB determines, as part of its deliberations regarding the peer review, that an implementation plan in addition to the plan described by the firm in its responses on the FFC forms is warranted, the firm will be required to evidence its agreement to the implementation plan. An implementation plan may consist of requiring specified CPE or submission of the firm's next monitoring report to the RAB. If

the RAB is considering a more extensive action involving submission of documents to an outside party, then the RAB needs to consider whether the findings should have been elevated to deficiencies in the report. If the finding is related to an engagement that was not performed or reported on in accordance with professional standards in all material respects, involving an outside party in the implementation plan may be appropriate as described in 4b. The RAB should not require an accelerated review as an implementation plan. However, the reviewed firm may elect to have an accelerated review as an alternative to completing an implementation plan of post-issuance review or submission of the firm's monitoring report to an outside party.

- b. When a firm receives a finding on a FFC form in relation to an engagement that was not performed or reported on in accordance with professional standards in all material respects and the RAB has determined the finding should not be a deficiency, the RAB should consider whether the engagement was in a must select industry as described in Interpretation No. 63-1 of par. .63 in PRP sec. 1000, *Standards for Performing and Reporting on Peer Reviews* (PRP sec. 2000). See allowable plans in [exhibit 4-2](#).
  - (1) Must select industry—the implementation plan for an initial or repeat finding may include requiring the firm to hire an outside party acceptable to the RAB to perform pre-issuance or post-issuance reviews or to review the firm's internal monitoring or inspection report. The pre-issuance or post-issuance review should focus on the issues identified in the finding and may not need to be performed on the entire engagement. The monitoring and inspection procedures should place particular emphasis on the findings reported on the FFC form and the actions outlined in the firm's response.
  - (2) Industries other than must select—the implementation plans described previously for must selects would only be appropriate for repeat findings.
- c. When a firm receives a finding on a FFC form, which is determined to be a repeat, there is a question about whether some further action is required. In making this decision, the RAB must first look to see whether the firm made a genuine effort to correct the situation from the prior review(s).
  - (1) If it is apparent that the firm attempted to correct the repeated finding, and the firm's response on the FFC form is specific on how the situation will be corrected, the RAB may decide that no additional implementation plan is necessary.
  - (2) If, on the other hand, it appears that the firm did not make a concerted effort to correct the repeated finding or if the RAB does not believe that the firm is committed to correct the situation, then it may require an implementation plan. The implementation plan could include such actions as requiring specified CPE or requiring the firm to submit a copy of an



internal monitoring or inspection report to the RAB for review. The monitoring and inspection procedures should place particular emphasis on the findings reported on the FFC form, and the actions outlined in the firm's response. As noted previously, involvement of an outside party is only acceptable in relation to engagements not performed or reported on in accordance with professional standards in all material respects. See allowable plans in [exhibit 4-2](#).

- (3) The guidance for allowable plans as discussed previously and included in [exhibit 4-2](#) must be followed, even in instances when the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required CPE. For example, the RAB may determine that more than eight hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm's monitoring report to the RAB.

#### **Exhibit 4-1a — Illustration of Aggregation and Systemic Evaluation of Matters on a System Review**

To illustrate, in a System Review, a matter is documented on a Matter for Further Consideration (MFC) form and discussed with the firm or cleared. If it does not get elevated further, a report with a peer review rating of *pass* is issued. However, depending on the resolution of a matter, and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated and, after considering the nature, **systemic** causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency or significant deficiency. Such finding is documented on a FFC form, and the administering entity's peer review committee will determine if it should require an implementation plan from the reviewed firm in addition to the plan described by the firm in its response to the findings on the FFC form. However, if during that process, the matter, which has been elevated to a finding (and thus far only documented on the MFC form) is further elevated to a deficiency or significant deficiency, it is communicated in the report itself (*pass with deficiency* or *fail* report, respectively), ~~along with the reviewer's recommendation~~. The administering entity's peer review committee will ordinarily require remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to or as an affirmation of those described by the reviewed firm in its letter of response. Because it is possible for a firm to receive a *pass with deficiency* or *fail* report, as well as FFCs which had not been elevated to deficiency or significant deficiency, it is possible for the firm to be responsible for submitting a corrective action plan related to the deficiency(ies) or significant deficiencies in the peer review report, as well as an implementation plan in response to the FFCs that did not get elevated.

#### **EXAMPLE 1**

2 partners



5 CPA staff

4 Government audits (500 hours each—two for each partner)

4 Employee Retirement Income Security Act (ERISA) audits (500 hours each—two for each partner)

5 Other audits (1000 total hours)

The team captain gained an understanding of the firm's system of quality control and considered various risk factors including the fact that one of the firm's partners (the third partner) left the firm with one staff person in the year prior to the year covered by the peer review. Both of these individuals that left the firm had been responsible for the firm's ERISA engagements in the past and everyone involved in the ERISA audits considered in the peer review were new to the engagements and had not previously performed an ERISA audit.

The team captain originally selected one of each type of audit for review. After considering the previous information and determining that the initial ERISA audit selected was not performed in accordance with professional standards in all material respects, the team captain expanded scope and performed a review of selected audit areas on each of the other ERISA audits.

The governmental and other audit had no MFCs or matters, but there were several MFCs related to the ERISA audits. The matters noted on the ERISA audits related to no participant data testing, no specific procedures for determining the existence of related parties, and no evaluation of the reasonableness of significant accounting estimates made by management; and there was no documentation of the entity's internal control components in planning the audit, in addition to other documentation matters. Upon further discussion with the firm, the team captain discovered that neither partner had taken any ERISA training in the last 5 years and on each audit, the respective partner only reviewed the report, financial statements, and footnotes and only skimmed some of the audit documentation. Two staff in the firm took a 4-hour self-study ERISA course before performing the audit, but they had never performed one before. The whereabouts of the documentation and working papers from the previous ERISA audits were unknown and, therefore, unavailable for the current year's audit.

### **Determining the Underlying Systemic Cause of the Matters**

- The team captain's next steps were to determine, based on all of the information gathered on the peer review, including the review of engagements, and in collaboration with the firm, what were the underlying systemic cause(s) of the matters noted on the ERISA engagements. The team captain considered a variety of possibilities, such as the following: Did the firm comply with its policies and procedures for Acceptance and Continuance of Client Relationships and Specific Engagements? The team captain considered whether the firm was competent to perform the engagements and had the capabilities and resources to do so based on the circumstances.
- Did the firm comply with its policies and procedures for Human Resources? Did the firm have sufficient personnel with the capabilities, competence, and commitment to ethical principles to perform engagements in accordance with professional standards?
- Did the firm comply with its policies and procedures for Engagement Performance? Did the engagements have appropriate supervision, staff training, and mentoring such that appropriate procedures were performed and work documented?

- Were the firm’s Monitoring policies and procedures designed and complied with appropriately?

Based on the team captain’s professional judgment and in collaboration with the firm, he determined that although an argument could be made for contributory underlying-systemic causes, the primary ~~un-~~derlying-systemic cause related to Acceptance and Continuance of Client Relationships and Specific Engagements.

### **Evaluation of “Matters” to the Level of “Finding” Then Evaluation of “Finding” to the Level of “Deficiency” and Evaluation of “Deficiency” to the Level of “Significant Deficiency”**

The team captain considered all of the facts in evaluating whether these “matters” rose to the level of “findings.” The team captain was able to conclude that as a result of the conditions noted in the firm’s system of quality control (and noncompliance with it), that the firm had more than a remote possibility of not performing engagements in conformity with professional standards. This is the threshold for a “finding.” However, the team captain also concluded that due to the nature, systemic causes, pattern, and pervasiveness, including the relative importance of the finding to the reviewed firm’s system of quality control taken as a whole, that a situation could be created where the firm would not have reasonable assurance of performing engagements in conformity with professional standards in one or more important respects. Therefore, the team captain determined that this finding does rise to the threshold level of a deficiency. The team captain then considered whether the deficiencies should be raised to the level of a significant deficiency to be included in a report with a rating of *fail*. The team captain determined that deficiencies, in the aggregate, did not result in a conclusion that the firm’s system of quality control, taken as a whole, did not provide reasonable assurance of complying with applicable professional standards in all material respects.

### **Determining the Type of Report to Issue**

Because deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*, the team captain issued such a report.

In addition, because the deficiencies were specific to the ERISA industry, the team captain identified this industry and level of service (audits) in the report as required by standards.

All of the team captain’s MFCs were listed in the DMFC. The DMFC noted that all matters were included in the report, and no FFCs were prepared.

## **Exhibit 4-2 — Suggested Actions and Allowable Plans**

### **System Review Peer Review Rating—*Pass With Deficiencies or Fail***

<b>Deficiency <u>or Significant Deficiency</u></b>	<b>Suggested action(s) to be performed as soon as reasonably possible</b>
Deficiency <u>or significant deficiency</u> related to engagement performance	<ul style="list-style-type: none"> <li>• Require the firm to hire an outside party acceptable to the RAB to perform a team captain revisit <sup>fn 6</sup></li> <li>• Require members of the firm to take specified types of and amounts of CPE</li> <li>• 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</li> <li>• Require post-issuance review of a subsequent engagement by an outside party <sup>fn 7</sup></li> <li>• Require the firm to hire an outside party acceptable to the RAB to review the firm's remediation of an engagement not performed or reported on in conformity with professional standards in all material respects <sup>fn 8</sup></li> <li>• <u>Require the firm to hire an outside party acceptable to the RAB to review the firm's completion of its intended remedial actions outlined in its letter of response or evaluate the appropriateness of alternative actions</u></li> <li>• Require the firm to join an AICPA audit quality center applicable to the type of engagement(s) not performed</li> </ul>

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<sup>fn 6</sup> RAB should allow flexibility and allow the firm to elect to have an accelerated review in lieu of team captain revisit or post-issuance review.

<sup>fn 7</sup> See [footnote 6](#).

<sup>fn 8</sup> This option is only allowable for firms who have governmental and employee benefit plan engagements that were identified in the peer review as not performed or reported on in accordance with professional standards in all material respects. In addition the firm must be eligible to enroll in the respective audit quality center. This action may not be in lieu of any other corrective action deemed appropriate by the committee and must be used in conjunction with other corrective actions

Deficiency <u>or Significant Deficiency</u>	Suggested action(s) to be performed as soon as reasonably possible
	or reported on in accordance with professional standards in all material respects
Deficiency <u>or significant deficiency</u> related to design or noncompliance of another element of the quality control system	Tailor corrective action accordingly, such as the following: <ul style="list-style-type: none"> <li>• Require submission of monitoring or inspection report</li> <li>• 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 periodically to the RAB on the firm's progress</li> </ul>

**Finding for Further Consideration Form(s) <sup>fn 9</sup>**

Finding	Allowable plans to be performed as soon as reasonably possible
Engagements not performed or reported on in conformity with professional standards in all material respects and there are: <ul style="list-style-type: none"> <li>• initial finding(s) on must select industry, or</li> <li>• repeat finding(s) for any industry</li> </ul>	<ul style="list-style-type: none"> <li>• Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance or post-issuance reviews of certain types or portions of engagements focusing on the areas identified in the finding</li> <li>• Require the firm to hire an outside party acceptable to the RAB to review the firm's internal monitoring or inspection report</li> <li>• Require members of the firm to take specified types of and amounts of CPE</li> <li>• Require firm to submit monitoring or inspection report to the RAB</li> <li>• <u>Require the firm to hire an outside party acceptable to the RAB to review the firm's remediation of an engagement not performed or reported on in</u></li> </ul>

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<sup>fn 9</sup> These are the only situations in which implementation plans are appropriate. Further, these are the only plans allowable. If the RAB believes a different implementation plan is necessary, what has been reported as a finding should more likely be reported as a deficiency in the report.

Finding	Allowable plans to be performed as soon as reasonably possible
	<p>conformity with professional standards in all material respects</p> <ul style="list-style-type: none"> <li>• <u>Require the firm to hire an outside party acceptable to the RAB to review the firm's completion of its intended remedial actions outlined in its response on the FFC form or evaluate the appropriateness of alternative actions</u></li> </ul>
<p>Engagement(s) indicate the following:</p> <ul style="list-style-type: none"> <li>• Repeat findings <sup>fn 10</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types of and amounts of CPE</li> <li>• Require firm to submit monitoring or inspection report to the RAB</li> </ul>
<ul style="list-style-type: none"> <li>• Failure to possess applicable firm license(s)</li> </ul>	<ul style="list-style-type: none"> <li>• Submit proof of valid firm license(s)</li> </ul>

## Chapter 5

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

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

The guidance in this chapter is to assist RABs in determining when and what type of corrective action(s) or implementation plans a firm should be required to take given a set of circumstances on an Engagement Review. [Chapter 6](#) contains guidance for monitoring corrective action(s) or implementation plans, determining when to require additional corrective actions or implementation plans when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required corrective action(s) or implementation plans or refuses to cooperate.

The decision of whether to require corrective action(s) or implementation plans and deciding on what actions or procedures are appropriate is a matter of professional judgment that each RAB makes based

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<sup>fn 10</sup> The guidance for allowable plans as discussed previously in this section must be followed, even in instances when the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required continuing professional education (CPE). For example, the RAB may determine that more than eight hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm's monitoring report to the RAB.

on the applicable facts and circumstances. RABs should consider this guidance but may need to consider alternative corrective actions more suited for the situation.

The RAB should not instruct reviewed firms to perform omitted procedures, to reissue accounting reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. Firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are appropriate, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of “we’ll fix it on the next engagement” without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

If the firm determines that omitted procedures will be performed, that notifications will be made to those relying on the reports, or that financial statements will be revised or reissued prior to the peer reviewer’s conclusion on the engagement or conclusion on the peer review, it is not expected that these actions will be completed before the peer review concludes. However, the firm’s response should include its intention to perform these steps, if known. The RAB may require follow up action to evaluate the firm’s follow through on the intended or alternative steps taken. However, the firm’s actions in these respects may affect other corrective actions or implementation plans that the committee may impose.

When the reviewer identifies an engagement not performed or reported on in conformity with applicable professional standards in all material respects, the review captain should thoroughly evaluate the firm’s considerations and decision with due consideration of applicable professional standards to determine whether a corrective action to follow up on the engagement should be suggested. The firm should include the summary of its considerations and conclusions in its response, generally documented on a MFC form.

If the review captain agrees with the reviewed firm’s response and appropriately documented considerations related to such an engagement and the firm states in its response that it intends to complete omitted procedures, to reissue the accountant’s report, or to have revisions made to previously issued financial statements, the RAB should consider whether the firm’s response is genuine, comprehensive, and feasible. The RAB also should ordinarily consider accepting the peer review provided that the reviewed firm agrees to submit evidence to a party acceptable to the RAB of performing and documenting the omitted procedures or of reissuing the report, if appropriate. Identification of an engagement not performed or reported on in conformity with professional standards in all material respects results in a deficiency in the Engagement Review report for which the RAB should ordinarily require some type of remedial or corrective action as a condition of acceptance.

When the RAB deems that the reviewed firm’s response is not sufficient (not genuine, comprehensive, and feasible) or has substantial reason to challenge the firm’s documented considerations and the reviewer’s assessment of the firm’s response to address an engagement not performed or reported on in conformity with professional standards in all material respects, the RAB should defer acceptance of the review pending revisions or additional information to resolve the matter. If the RAB determines that the firm has not properly considered applicable professional standards to address such an engagement, the firm’s actions may affect other corrective actions or implementation plans that the committee may impose, or they may cause the RAB to not accept the peer review report and consider that the firm is not cooperating with the peer review program.

- A. In an effort to promote consistency among the various report acceptance bodies, the following situations should be considered before deciding upon certain corrective actions on Engagement Reviews.
2. Engagement 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 or corrective action as a condition of acceptance. In addition, there may be instances where an implementations plan is required as a result of FFC forms. See item (A.4) in the following text for treatment of FFC forms, if any.
  - b. The type of action required would depend on the nature of the deficiencies. See suggested actions in [exhibit 5-2](#).
    - (1) When a firm receives a report with a rating of *pass with deficiencies* on its Engagement Review, but (a) there are no reasons to suspect the firm does not have an understanding of GAAP, SSARS, and the SSAEs and (b) its responses to the matters described in the report are comprehensive, genuine, and feasible, the RAB ordinarily should require the firm to submit a copy of a subsequent report and accompanying financial statements to the review captain for review to show that the deficiencies have been corrected. If the firm's responses are not comprehensive, genuine, and feasible, the report acceptance body should require the firm to submit a revised letter of response.
    - (2) If the RAB believes that the deficiency(s) were caused by a general lack of knowledge of accounting or reporting matters, or both, the report acceptance body ordinarily should require that the individuals within the firm obtain specified types and amounts of CPE and monitor CPE completion. The RAB also might want to require the firm to submit a copy of a report issued subsequent to the peer review, along with the accompanying financial statements or documentation, or both, required by professional standards showing that deficiencies identified in the peer review have been corrected.
    - (3) The RAB may choose to require the firm allow the review captain or someone acceptable to the RAB firm to review completion of its intended remedial actions outlined in its letter of response or evaluate appropriateness of alternative actions.
    - (34) 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.
 

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. Engagement 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. 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 for treatment of FFC forms, if any.
  - b. The following are suggestions for possible remedial corrective actions. Also, see suggested actions in [exhibit 5-2](#).
    - (1) Require one or more individuals in the firm to take specified types and amounts of continuing professional education (CPE), or submit a copy of a report issued subsequent to the peer review, along with the accompanying financial statements, documentation, or both, required by professional standards. This information may be submitted to the review captain after individuals have completed the specified CPE when the deficiencies identified are related to one or two specific areas of accounting or reporting; and the review captain will report the results of his or her review.
    - (2) Require one or more individuals in the firm to take specified types and amounts of CPE and (a) require the firm to engage an outside party acceptable to the RAB to perform pre-issuance reviews of certain types or portions of engagements and (b) require a periodic report from the outside party to the RAB on the firm's progress.
    - (3) The RAB may choose to permit, but not require the firm to undergo an accelerated peer review in lieu of other remedial or corrective actions considered necessary in the circumstances.
  - 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).
4. Engagement Review Finding for Further Consideration Form(s)
  - a. A RAB ordinarily would not require an implementation plan or any related remedial corrective action(s) of a firm when its responses to findings addressed on FFC form(s) are comprehensive, genuine, and feasible. RABs may not be able to determine if responses are comprehensive, genuine, and feasible if the reviewed firm does not describe ~~how it intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation, the person[s] responsible for implementation, the firm's actions taken or planned to remediate findings,~~ the timing of the implementation and, if applicable, additional procedures to ensure the finding is not repeated in the future. If the responses are not comprehensive, genuine, and feasible, the RAB should have the firm re-

vises its response. If the RAB determines, as part of its deliberations regarding the peer review, that an implementation plan in addition to the plan described by the firm in its responses on the FFC form are warranted, the firm will be required to evidence its agreement in writing (sec. 1000 par. .143).

For engagement reviews, implementation plans requiring the involvement of an outside party are not appropriate. A matter on an engagement review resulting in an engagement not performed or reported on in accordance with professional standards in all material respects should be reported as a deficiency. Accordingly, if a RAB believes that involvement of an outside party is necessary to correct a finding, it is more likely that the finding should be reported as a deficiency in the report. Implementation plans are only appropriate on engagement reviews for repeat findings and firm license issues. In these instances, appropriate implementation plans would be the submission of the firm's monitoring report to the RAB, CPE, or submission of proof of a valid firm license.

### **Exhibit 5-1a — Aggregation and Evaluation of Matters on a Single Engagement in an Engagement Review**

#### **EXAMPLE 1**

##### **Two partners who perform reviews and compilations.**

**Engagement 1**—The review captain noted the following matters as a result of reviewing an omit disclosure compilation engagement from Partner 1 and documented them in MFCs:

- There was a numerical error in the financial statements that was immaterial and not deemed to be misleading (MFC 1).
- The titles on the financial statements were not consistent with the report issued but the applicable financial reporting framework was readily determinable (MFC 2).
- There was a failure to refer to the accountant's report on each page of the financial statements (MFC 3).

In evaluating these matters, the review captain considered whether these either individually or in aggregate rose to a "finding." Because a *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant's reports submitted for review, or the procedures performed (including related documentation) not being performed or reported on in conformity with the requirements of applicable professional standards, the review captain determined that the first item did not rise to this level. However, the review captain concluded that the two other matters did rise to this level. MFC 2 and MFC 3 are now being considered findings.

The next step for the review captain is determining whether the two findings rose to the level of a deficiency. Because a *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports, or represents

omission of a critical procedure (including documentation) required by applicable professional standards, the review captain determined that neither of the two findings met this threshold and, therefore, concluded there were no deficiencies on this engagement.

**Engagement 2**—The review captain noted the following matters as a result of reviewing a full disclosure compilation engagement from Partner 2 and documented them in MFCs:

- The titles on the financial statements were not consistent with the report issued, but the applicable financial reporting framework was readily determinable (MFC 4).
- There was a failure to refer to the accountant’s report on each page of the financial statements (MFC 5).
- The financial statements show the reporting entity used an inappropriate method of revenue recognition MFC 6.

In evaluating these matters, the review captain considered whether these either individually or in aggregate rose to a “finding.” Because a *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant’s reports submitted for review, or the procedures performed (including related documentation) not being performed or reported on in conformity with the requirements of applicable professional standards, the review captain determined that each of these matters rose to this level. So these three matters are now being considered *findings*.

The next step for the review captain is determining whether the three findings rose to the level of a deficiency. Because a *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant’s reports, or represents omission of a critical procedure (including documentation) required by applicable professional standards, the review captain determined that the first two findings did not meet this threshold even though they were the same findings as noted on engagement 1 but did conclude that using an inappropriate method of revenue recognition did meet the threshold for being a deficiency.

**Engagement 3**—The review captain noted the following matters as a result of reviewing a review engagement from Partner 1 and documented them in MFCs:

- There was a failure to indicate the level of responsibility in the report taken for supplemental information that was presented with the financial statements (MFC 7).
- The report indicates the applicable financial reporting framework presented (for example, the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities [FRF for SMEs accounting framework™]), but the financial statements and the report include titles generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP (MFC 8).

Using the same steps previously mentioned, the review captain determined that each of these rose to the level of findings, but were not individually or in the aggregate a deficiency.

### **Review Captain’s Evaluation of the Three Engagements Reviewed**

- Two of the engagements had two findings each.
- One engagement had a deficiency (and also had two findings).

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

- The review captain cannot issue a report with a rating of *pass* because by definition, such a report does not have deficiencies.
- The review captain would not consider issuing a report with a rating of *fail* because consideration is only given to issuing a report with a rating of *fail* when deficiencies exist on all engagements.
- Therefore, because the review captain identified one engagement (of the three reviewed) that had a deficiency, the review captain issued a report with a rating of *pass with deficiencies*, and the deficiency ~~and its recommendation~~ discussed the inappropriate method of revenue recognition.

It should be further noted that the review captain prepared 8 MFCs and used the DMFC to articulate that MFC 1 was appropriately disposed of; MFCs 2 and 4 resulted in FFC 1 related to proper titles of financial statements presented; MFCs 3 and 5 resulted in FFC 2 relating to referring to the accountant's report on each page of the financial statements, and MFCs 7 and 8 resulted in FFC 3 for reporting matters. MFC 6 was identified as resulting in a deficiency in the report.

### **Exhibit 5-2 — Suggested Actions and Allowable Plans**

#### **Engagement Review Peer Review Rating—*Pass With Deficiencies or Fail***

##### **Suggested action(s) to be performed as soon as reasonably possible**

- Require firm to submit a copy of a subsequent report and accompanying financial statements to review captain<sup>fn 12</sup>
- Require members of the firm to take specified types and amounts of CPE
- Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance and post-issuance reviews of certain types or portions of engagements and to report periodically to the RAB on the firm's progress
- Require the firm to hire an outside party acceptable to the RAB to review the firm's remediation of an engagement not performed or reported on in conformity with professional standards in all material respects
- Require the firm to hire an outside party acceptable to the RAB to review the firm's completion of its intended remedial actions outlined in its letter of response or evaluate the appropriateness of alternative actions

<sup>fn 12</sup> RAB should allow flexibility and allow the firm to elect to have an accelerated review.

## Finding for Further Consideration Form(s) <sup>fn 13</sup>

Finding	Allowable plans to be performed as soon as reasonably possible
Engagement(s) indicate the following: <ul style="list-style-type: none"> <li>• Repeat findings <sup>fn 14</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE</li> <li>• Require firm to submit monitoring report or inspection report to the report acceptance body</li> </ul>
<ul style="list-style-type: none"> <li>• Failure to possess applicable firm license(s)</li> </ul>	<ul style="list-style-type: none"> <li>• Submit proof of valid firm license(s)</li> </ul>

## Chapter 6

### Monitoring Corrective Actions and Implementation Plans

#### Corrective Actions

#### III. Guidance When a Corrective Action Should be Replaced or Waived

##### Consideration for Replacing Corrective Actions

Committees may request corrective actions that are industry or engagement type specific but address a firm's noncompliance with its system of quality control policies and procedures. The noncompliance may have been evident in more than one industry or engagement type. If the firm represents that it will no longer perform engagements in a specific industry but had deficiencies related to the same systemic cause detected in several engagements or industries, the committee should consider whether the action should still be completed or replaced with another corrective action.

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<sup>fn 13</sup> These are the only situations in which implementation plans are appropriate. Further, these are the only plans allowable. If the RAB believes a different implementation plan is necessary, what has been reported as a finding should more likely be reported as a deficiency in the report.

<sup>fn 14</sup> The guidance for allowable plans as discussed previously in this section must be followed, even in instances when the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required CPE. For example, the RAB may determine that more than eight hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm's monitoring report to the RAB.

For example, the only peer review deficiencies noted were related to industry specific matters on the firm's only two Employee Retirement Income Security Act (ERISA) engagements. The ~~underlying~~-systemic cause did not extend to other aspects of the firm's practice. The RAB required the firm to submit to an outside party the next ERISA engagement for a pre-issuance review. The firm represents it is no longer performing ERISA engagements. Because the systemic cause did not extend to other aspects of the firm's practice, the RAB could waive the corrective action with the understanding that the firm will be required to comply with the action if they accept another ERISA engagement. If, however, the ~~underlying~~-systemic cause extended to other aspects of the firm's practice due to the firm not complying with its quality control policies and procedures, the committee should consider replacing the corrective action with the requirement to submit a pre-issuance review of an audit engagement.

### Consideration for Waiving Corrective Actions

Committees should waive actions only after it has considered all replacement options. There are few situations where it is appropriate to waive an action. Some of those examples follow (this is not an all-inclusive list):

1. The firm represents it is no longer performing the types of engagements that were the source of the deficiencies and the ~~underlying~~-systemic cause did not extend to other aspects of the firm's practice. (see the following section)
2. The firm has given up its auditing and accounting practice and represents it has no plans to perform audit or accounting engagements in the future. If the firm represents that it will no longer perform audits but will continue the accounting practice, the committee should consider whether the corrective action should be replaced.
3. A partner leaves the firm and that partner was the sole source of the engagement or systemic deficiencies.
4. The firm has been sold and is no longer practicing and not licensed to practice. This does not include mergers or situations when a firm is no longer in existence and the partners have taken their respective clients to another firm.

## Implementation Plans

### **III. Guidance When an Implementation Plan Should Be Replaced or Waived**

#### Consideration for Replacing Implementation Plans

Committees may request implementation plans that are industry or engagement type specific but address a firm's noncompliance with its system of quality control policies and procedures. The noncompliance may have been evident in more than one industry or engagement type. If the firm represents that it will no longer perform engagements in a specific industry but had findings related to the same systemic cause detected in several engagements or industries, the committee should consider whether the plan should still be completed or replaced with another corrective plan.

For example, the only peer review findings noted were related to industry specific matters on the firm's only two Employee Retirement Income Security Act (ERISA) engagements. The engagements were deemed to be performed and reported on in accordance with professional standards in all material respects. The ~~underlying~~-systemic cause did not extend to other aspects of the firm's practice. The RAB

required the firm; personnel that performed ERISA engagements to take eight hours of ERISA CPE. The firm represents it is no longer performing ERISA engagements. Because the systemic cause did not extend to other aspects of the firm's practice, the RAB could waive the implementation plan with the understanding that the firm will be required to comply with the plan if they accept another ERISA engagement. If, however, the **underlying**-systemic cause extended to other aspects of the firm's practice due to the firm not complying with its quality control policies and procedures, the committee should consider replacing the implementation plan with the requirement to submit its next monitoring report to the RAB with a focus on the findings and firm response included on the FFC form.

### Consideration for Waiving Implementation Plans

Committees should waive plans only after it has considered all replacement options. There are few situations when it is appropriate to waive a plan. Some examples of this include (this is not an all-inclusive list):

1. The firm represents it is no longer performing the types of engagements that were the source of the findings and the **underlying**-systemic cause did not extend to other aspects of the firm's practice. (See the section titled "Firm Represents no Longer Performing Certain Engagements" in this chapter.)
2. The firm has given up its auditing and accounting practice and represents it has no plans to perform audit or accounting engagements in the future. If the firm represents that it will no longer perform audits but will continue the accounting practice, the committee should consider whether the implementation plan should be replaced.
3. A partner leaves the firm and that partner was the sole source of the engagement or systemic findings.
4. The firm has been sold and is no longer practicing and not licensed to practice. This does not include mergers or situations when a firm is no longer in existence and the partners have taken their respective clients to another firm.

## **Chapter 8**

### **Reviewer Qualifications, Responsibilities, and Performance**

#### **IV. Reviewer Performance Deficiencies**

##### **B. Reviewer Feedback Forms**

- Completion of FFC Forms: The reviewer did not



- systemically write findings in a System Review. (standards sec. 1000 par. .83)
- sufficiently complete or write FFC forms or evaluate the firm’s response. (System Reviews sec. 4960; Engagement Reviews sec. 6600)
- properly identify a repeat finding. (Interpretation No. 83-2)
- ~~— provide proper recommendations to the firm to sufficiently address the findings. (System Reviews sec. 4960; Engagement Reviews sec. 6600)~~
- Reporting: The reviewer did not
  - properly identify that a deficiency was a repeat. (standards sec. 1000 System Reviews par. .96; Engagement Reviews par. .122n)
  - provide sufficient peer review working papers or documentation to support the report rating. (standards sec. 1000 System Reviews par. .87–.90; Engagement Reviews par. .117–.119)
  - systemically write deficiencies in a system review report, and a revision was required. (standards sec. 1000 par. .96m)
  - ~~— “close the loop” when reporting on deficiencies in a system review. (standards sec. 4200.54g)~~
  - ~~— provide proper recommendations to the firm to sufficiently address the deficiencies noted in the peer review report. (standards sec. 1000 System Reviews par. .96m; Engagement Reviews par. .122m)~~
  - represent the report in standard form in accordance with peer review guidance, or significant revisions to the report were needed. (standards sec. 1000 System Reviews par. .96; Engagement Reviews par. .122)
  - properly review, evaluate and comment on the reviewed firm’s letter of response when the reviewer received the letter prior to its submission to the administering entity. (standards sec. 1000 System Reviews par. .97; Engagement Reviews par. .123)

## PRP Section 4100

### *Instructions to Firms Having a System Review*

#### Introduction

- .01** The purpose of these instructions is to provide overall guidance to firms having System Reviews under the AICPA Peer Review Program (the program). Firms should be aware of their peer review responsibilities and requirements as discussed in section 1000, *Standards for Performing and Reporting on Peer Review*. Firms should pay particular attention to paragraphs .01–.19 of the standards, as well as these instructions, ~~the quality control policies and procedures questionnaire, and review guidelines~~. In addition, all individuals in the firm involved in the peer review should be familiar with the standards; section 2000, *Peer Review Standards Interpretations*; section 3000, *Other Guidance*; and materials relative to the aspect of the review that most directly affects their role in the firm. These individuals should be aware that peer review documents may need to be completed electronically by logging into their account on [www.aicpa.org](http://www.aicpa.org). If documents cannot be completed electronically, an alternative method acceptable to the AICPA can be used. These instructions should be used for reference on firm-on-firm reviews and reviews with association formed review teams.
- .02** A System Review is required for firms that perform engagements under the Statements on Auditing Standards (SASs), *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements performed under the PCAOB standards. Engagements subject to PCAOB permanent inspection are excluded from the program (see Interpretation No. 7-1).
- .03** A System Review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review,
- a. the reviewed firm’s system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA. See Statement on Quality Control Standards [SQCS] No. 8, *A Firm’s System of Quality Control (Redrafted)* (AICPA, *Professional Standards*, QC sec. 10).
  - b. the reviewed firm’s quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- .04** A System Review is designed to test a reasonable cross section of the firm’s engagements with a focus on high-risk engagements. Additionally a System Review tests significant risk areas where the possibility exists of engagements not being performed or reported on in conformity with applicable professional standards in all material respects- (“nonconforming”). A System Review is not designed to test every engagement or compliance with every professional standard and every detailed component of the firm’s system of quality control.
- .05** A System Review also involves the review team obtaining a sufficient understanding of the reviewed firm’s system of quality control with respect to each of the quality control elements in SQCS No. 8 to plan the review. SQCS No. 8 requires every CPA firm, regardless of its size, to have a system of quality control

for its accounting and auditing practice. It states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm (the “tone at the top”); relevant ethical requirements (such as independence, integrity, and objectivity); acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring. It also states that the nature, extent, and formality of a firm’s quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm’s size, the number of its offices, the degree of operating autonomy allowed to its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm’s practice, and appropriate cost-benefit considerations.

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

## Prior to the Review

**.07** Firms enrolled in the program are required to have a peer review once every three years. In most circumstances, the year-end date should not change from one triennial review period to the next. Ordinarily, the peer review year is the 12-month period ending 6 months prior to the peer review due date. The peer review due date is 3 years and 6 months after the last peer review year end, or, in the initial year, is ordinarily 18 months after a firm enrolled, or should have enrolled, in the AICPA Peer Review Program. See paragraphs .13–.19 of section 1000 for timing of the reviews.

**.08** It is the responsibility of the firm to verify that the team captain and team members is-are qualified to do the review.

**.09** The firm and the team captain should agree on an appropriate date for the review to commence and the anticipated exit conference date. Ordinarily, the review should be performed within 3–5 months following the end of the year to be reviewed. The review should be planned to provide the review team with sufficient time to perform the review and to provide the firm with sufficient time prior to the exit conference to determine appropriate responses to matters, findings, deficiencies, and significant deficiencies identified during the review.

~~In most circumstances, the year-end date should not change from one triennial review period to the next. Ordinarily, the peer review year is the 12-month period ending 6 months prior to the peer review due date. The peer review due date is 3 years and 6 months after the last peer review year end, or, in the initial year, is ordinarily 18 months after a firm enrolled, or should have enrolled, in the AICPA Peer Review Program. See paragraphs .13–.19 of section 1000 for timing of the reviews.~~

**.0810** The terms and conditions of the peer review may be summarized in an engagement letter between the reviewed firm and the reviewing firm or association, if an association formed the review team.

**.0911** A partner or manager of the firm should be designated as liaison to provide assistance to the review team and should be available throughout the review. The designated liaison should be someone who is knowledgeable about the nature of the firm’s practice and is accountable for providing complete and accurate information to the administering entity and the peer review team. The information provided should include a complete listing of engagements within the peer review scope. Each firm should be aware that failure to represent its accounting and auditing practice accurately, as defined by the AICPA *Standards*

for *Performing and Reporting on Peer Review*, will be deemed a matter of noncooperation with the program. As a result, the firm will be subject to a hearing before the Peer Review Board to determine if the firm's enrollment in the program should be terminated. If the firm's enrollment is terminated for omission or misrepresentation of information relating to its accounting and auditing practice, the matter will be referred to the AICPA Professional Ethics Division for investigation of a possible violation of the *AICPA Code of Professional Conduct*.

- .1012** A reviewed firm may have legitimate reasons for excluding an engagement or certain aspects of functional areas, from the scope of the peer review, for example, when an engagement or an employee's personnel records are subject to pending litigation. In these situations, ordinarily the reviewed firm should notify the team captain in a timely manner and submit a written statement to the administering entity, ordinarily prior to the commencement of the review, indicating (a) it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process, (b) the reasons for the exclusion, and (c) that it is requesting a waiver for the exclusion.
- .131** Provide the following to the team captain ~~as soon as possible~~ prior to the commencement of fieldwork:
- a. The quality control document effective for the peer review year, ~~if any~~.
  - ~~b. If the firm does not have a quality control document effective for the peer review year, a completed "Quality Control Policies and Procedures Questionnaire" (sec. 4300 or 4400). (Sec. 4300 is for sole practitioners with no personnel and sec. 4400 is for firms with two or more personnel.) If the questionnaire was not effective for the peer review year, the firm should also provide the previously completed questionnaire(s) that were effective for the peer review year, if any. This could be the questionnaire completed for the firm's last peer review, which the firm should be maintaining as documentation of its system of quality control. Under certain circumstances, the team captain may request that a firm complete this questionnaire (and attach the quality control document) even if it has a quality control document. For instance, this could be requested if the team captain's consideration of the firm's quality control document indicates that it may not adequately address all the required elements of a system of quality control in a level of detail appropriate to the firm. This could also be requested if the team captain's consideration of the quality control document indicates that a summary of the document would assist the team captain's review of it.~~
  - ~~c.~~ Relevant manuals, checklists, partner resumes, and background information. If the team captain performed the firm's previous review, he or she may be familiar with the firm and, as a result, may not request partner resumes or other nonessential information.
  - d. A list of accounting and auditing engagements prepared in the format shown in appendix B (sec. 4100 par. .37) to these instructions or in another suitable manner as requested by the team captain. The firm should consider the following when developing the list:
    - The list should include all engagements with periods ended during the year under review (or report dates during the year under review for financial forecasts or projections and agreed upon procedures) and covered by the definition of an accounting and auditing practice for peer review purposes, regardless of whether the engagement reports are issued.
    - The listing should separately identify each engagement, level of service, and industry for each client.

- The list should identify the engagements accepted since the last peer review.
- The firm should be prepared to describe its approach to ensuring a complete and accurate engagement listing for the firm’s ongoing monitoring procedures and its approach for the peer review.
- If the reviewed firm has clients with operations in foreign countries or commercial audits with special performance and reporting requirements such as those subject to *Government Auditing Standards*, the firm should identify those clients on the engagement listing.
- ~~The listing should separately identify each engagement, level of service, and industry for each client. Firms should understand the following to avoid common errors:~~
- Limited scope benefit plan audits or other audits in which the firm disclaimed an opinion are considered audits performed under SAS that should be included in the peer review scope.
- If the firm performs the financial audit for an entity, and also performs other services for the same entity (such as the employee benefit plan audit or agreed upon procedures engagement), each of the engagements must be separately identified on the listing provided for the peer reviewer.

e. A list of the firm’s personnel, showing name, position, and years of experience (i) with the firm and (ii) in total. This list may be abbreviated for small firms or if the team captain is familiar with the reviewed firm.

~~f. A completed “Managing Partner/Chief Executive Office Interview Questionnaire” (sec. 4750). The objective of the interview is to assist the peer review team in gaining an understanding of the firm leadership’s involvement with its system of quality control. The questionnaire is designed to facilitate the interview and help the review team gain an understanding of management’s philosophy toward and support of the quality control initiatives in the firm that will be considered by the team captain in assessing inherent and control peer review risk. The questionnaire should be completed by the firm executive who sets the tone for the firm in connection with its accounting and auditing practice. It may be completed in advance of the interview to facilitate the interview process, in which case the team captain will review the responses with the firm. (See instructions to the form in section 4750.)~~

g. A list of the key quality control personnel such as Human Resources Director, Quality Control Director, and the person responsible for monitoring.

gh. Other information requested by the team captain to be provided prior to the commencement of fieldwork.

**.1214** Have available for the review team when they arrive at the firm’s office (commencement date):

- a. The firm’s documentation demonstrating compliance with its quality control policies and procedures for monitoring since the firm’s last peer review
- b. All engagements for the year under review, including all applicable documentation required by professional standards and reports issued in connection with the engagements

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

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

**.1416** ~~In addition to the managing partner or CEO interview, the~~ review of the firm's quality control policies and procedures includes interviews of the reviewed firm's management and staff. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated. The review team may perform one-on-one staff interviews or, depending on the size of the firm, focus groups (see section 4700). The team captain will arrange for the scheduling of interviews with selected members of the firm's personnel. The firm should see that this schedule is communicated to the appropriate individuals and that they understand the importance and purpose of the interviews. The review team will endeavor to have these discussions and interviews without disrupting the firm's operations.

**.1517** The team captain will select certain engagements for review, and request the firm to prepare a profile sheet on each engagement selected. The initial selection of engagements to be reviewed should ordinarily be provided to the reviewed firm no earlier than three weeks prior to the commencement of the peer review procedures at the related practice office or location. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed will be provided to the firm once the review commences and not provided to the firm in advance. Careful and complete preparation of the profile sheets is important for the efficient performance of the peer review.

**.1618** At least one of each of the following types of engagements is required to be selected for review in a System Review:

- a. Governmental—*Government Auditing Standards* (GAS, also known as the Yellow Book), issued by the U.S. Government Accountability Office, requires auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards.



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

In complying with the requirements in the previous list, peer reviewers will ensure that the engagements selected include a reasonable cross section of the firm’s accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain this risk weighted cross section. See Interpretation No. 63-1 of paragraph .63 in section 1000 (sec. 2000 question 63-1), for more information.

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

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

## During the Review

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

**.20.22** During the course of the review, the review team may find it necessary to discuss matters with the appropriate firm personnel. Firm personnel should be asked to be available to the review team as necessary during the course of the review.

## Completion of the Review and Firm Responses



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

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

~~.23 Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting. The team captain should ordinarily be physically present at the closing meeting, unless the System Review is performed at a location other than the reviewed firm's office. The closing meeting may also be attended by representatives of the administering entity, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):~~

- ~~a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.~~
- ~~b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.~~
- ~~c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.~~

~~.24 An exit conference will be held after the firm has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters,~~

findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program.
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

.25 The firm should respond to all matters communicated on an MFC form, findings communicated on an FFC form and deficiencies, or significant deficiencies communicated in the peer review report. The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference. Delays in responses by the firm may result in a delay to the exit conference and a delay in submission of the review workpapers to the administering entity, resulting in the firm's becoming past due. Past due reviews have AICPA membership implications, state board licensing implications, and impacts qualifications of being a peer reviewer, among others consequences.

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

- ~~a.—Situations or a summary of situations where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance.~~
- ~~b.—Communications or summary of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within the three years preceding the firm's current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review (see Interpretation No. 34-1 in section 2000). In addition, the reviewer may inquire if there are any other issues that may affect the firm's practice.~~

- ~~e.—Restrictions or limitations on the firm’s or its personnel’s ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year end.~~
- ~~d.—Completeness of the engagement listing provided to the reviewer, including, but not limited to, inclusion of all engagements performed, whether issued or not, under *Government Auditing Standards*; audits of employee benefit plans; audits performed under FDICIA; audits of carrying broker-dealers; examinations of service organizations’ SOC 1 and SOC 2 engagements, as applicable; and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection.~~
- ~~e.—Discussions of significant issues from reports or communications, or both, from other practice monitoring or external inspection programs, such as that of the PCAOB, with the team captain (see Interpretations No. 40-1, 40-2, and 181-1b-1 in section 2000).~~
- ~~f.—Accepting responsibility for understanding, tailoring, and augmenting the quality control materials that the firm develops or adopts for use in its accounting and auditing practice.~~
- ~~g.—Other representations obtained by the team captain or review captain, which will depend on the circumstances and nature of the peer review.~~

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

~~.24 Ordinarily the FFC forms should be responded to by the reviewed firm during the peer review; for example, during or immediately following the exit conference. This would allow the team captain to assist the firm in developing its responses and obtaining the necessary signatures on the FFC forms and allow the team captain to review the responses at that time, all of which will expedite the process.~~

~~.26 The reviewed firm’s response on an MFC should take into consideration any risks in the firm’s system of quality control identified as part of the team captain’s completion of 4500 or 4600, *Guidelines for Review of Quality Control Policies and Procedures*. Responses such as “oversight” or “isolated” are not appropriate without further investigation. Accordingly, the firm’s response should include an assessment of systemic cause and sufficient detail for the reviewer to understand how they arrived at their conclusion.~~

~~.27 If the reviewed firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies,~~

and significant deficiencies and to appropriately respond. The reviewed firm should address the following in its response with respect to each finding, deficiency, and significant deficiency:

- a. Nonconforming engagements, including the following:
  - The firm's actions taken or planned to remediate the engagements identified on the FFC form or in the report as nonconforming.
  - The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control (see interpretations)
- b. Systemic issues unrelated to nonconforming engagements:
  - The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control
- c. Timing of the remediation

~~.28~~ The reviewed firm's responses ~~The reviewed firm's responses should describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The team captain can provide assistance in ensuring that the responses are appropriate and comprehensive. However, it is also recognized that the reviewed firm may prefer to provide its final responses after it has had the opportunity to discuss them further internally, develop a plan of action or more formally respond. In either case, the completed FFC forms should be submitted to the team captain no later than two weeks after the exit, or by the peer review's due date, whichever is earlier. FFC forms are then submitted by the team captain with the applicable working papers to the administering entity. If the reviewed firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.~~

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

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

~~.27~~ 29 If the reviewed firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.

.30 The firm is required to make specific representations as noted in paragraph .208, "Appendix B, Considerations and Illustrations of Firm Representations." Each representation must be included in the representations letter. Additional representations may be made to indicate that no such conditions exist. The

written representations should be addressed to the team captain performing the peer review (for example, “To John Smith, CPA”), presented on firm letterhead, and signed on behalf of the firm. The written representations should be signed by individual members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (this should not be a firm signature). Such members of management normally include the managing partner and partner or manager in charge of the firm’s system of quality control. Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the peer review report or other peer review documents, the representations should be dated the same date as the peer review report.

**.2831** Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge each other on such matters. If, after discussion with the team captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter. ~~If the firm still disagrees after contacting the administering entity, the firm’s response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~ For more information on disagreements, please review paragraph .938 of section 1000.

**.2932** It is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, Tthe AICPA Peer Review Board encourages the reviewed firm to work with the team captain to develop ~~recommendations-remedial actions~~ that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the peer review. Experience shows that improvement is more likely to occur when the letter of response describes specific actions to be taken. Therefore, a response limited to the firm’s comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

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

**.3134** The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. As part of the acceptance process, the firm may be requested to perform remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report or comply with implementation plans related to findings, in addition to those ~~remedial actions~~ described by the reviewed firm ~~in its letter of response~~. If a firm does not perform the required actions, this ~~will may~~ delay completion of the firm’s peer review and could jeopardize the firm’s enrollment in the program. ~~.32 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of~~



~~quality control or their compliance with the system, or both. Based on the information on the FFC form, the firm may be required to have an implementation plan in addition to the plan described by the reviewed firm in its response to the findings on the FFC form(s). If a firm does not perform the required action in the implementation plan, it could jeopardize the firm's enrollment in the program.~~ Disciplinary actions (including those that can result in the termination of a firm's enrollment in the program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners and employees) will be taken only for a failure to cooperate, failure to correct inadequacies, or when a firm is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

## Fees and Expenses

- .3335** Administering entities approved by the AICPA Peer Review Board are authorized to establish dues or registration fees within their individual jurisdictions to fund the administration of the AICPA Peer Review Program.
- .3436** The AICPA Peer Review Board has adopted procedures (see Interpretation No. 5h-1, "Cooperating in a Peer Review" [sec. 2000, question 5h-1]) for dropping a firm's enrollment in the AICPA Peer Review Program for failure to pay fees charged by an administering entity of the AICPA Peer Review Program.
- .3537** The AICPA Peer Review Board has adopted a resolution for dropping a firm's enrollment in the AICPA Peer Review Program for failing to pay the fees and expenses related to the administration of the program that have been authorized by the governing body of an administering entity.

## Appendix A

### Checklist for Firms Undergoing a System Review (for System Reviews commencing on or after January 1, 2009)

#### **.3638**

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

	<u>Initial</u>	<u>Date</u>
1. Verify that the team captain is qualified to perform the review.	_____	_____
2. Obtain and return the engagement letter.	_____	_____
3. Set the dates for the performance of the peer review and confirm the 12-month period to be covered by the review with the team captain.	_____	_____
4. If requested to do so, arrange for hotel accommodations for the review team and communicate details to the team captain.	_____	_____
5. Submit the firm's background information, including the background or scheduling form provided to the administering entity, to the team captain.	_____	_____
6. If the firm contemplated excluding engagement(s) or aspect(s) of functional area(s), verify that it notified the team captain in		

a timely manner and submitted a written statement to the administering entity indicating

- a. it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process;
- b. the reasons for the exclusion; and
- c. it is requesting a waiver for the exclusion.

The waiver should ordinarily be obtained prior to commencement of the review. The documents should be kept with peer review documentation.

7. Provide the following to the team captain ~~when available prior to the commencement of fieldwork:~~

a. The firm's quality control document effective for the peer review year, ~~if any.~~

b. Relevant manuals, checklists, partner resumes, and background information.

~~b. In lieu of a quality control document effective for the peer review year, a completed "Quality Control Policies and Procedures Questionnaire." If the questionnaire was not effective for the peer review year, the firm should also provide the previously completed questionnaire(s) that were effective for the peer review year, if any. This could be the questionnaire completed for the firm's last peer review, which the firm should be maintaining as documentation of their system of quality control. Under certain circumstances, the team captain may request that a firm complete this questionnaire (and attach the quality control document) even if it has a quality control document. See 11b for further guidance.~~

c. A list of the firm's personnel, showing name, position, and years of experience (i) with the firm and (ii) in total.

d. A list of the key quality control personnel such as Human Resources Director, Quality Control Director, and the person responsible for monitoring.

e. A copy of the inspection reports for each of the three years subsequent to the prior peer review and any relevant communications about those inspections such as consultant review reports.

f. Other information requested by the team captain to be provided prior to the commencement of fieldwork.

~~d. All relevant manuals, checklists, partners' resumes and other documents to the extent requested by the team captain.~~

~~e. Completed "Managing Partner/Chief Executive Office Interview Questionnaire" (sec. 4750), unless the form will be completed during the interview.~~

8. Prepare separate schedules of the firm's audit, review, preparation, other attestation, and compilation engagements. The schedules should include the following for each engagement:



- |  |              |              |
|--|--------------|--------------|
| <p>a. Total number of auditing or accounting hours (actual, if available, or estimated) (the hours should not include non-attest services [including tax, bookkeeping, or other assistance] provided in connection with the service)</p>   | <p>_____</p> | <p>_____</p> |
| <p>b. Partner-in-charge</p>  | <p>_____</p> | <p>_____</p> |
| <p>c. Nature of the client’s business or an indication of the industry in which the client operates</p>  | <p>_____</p> | <p>_____</p> |
| <p>d. Period reported on or year-end date of the financial statements <u>(report date for financial forecasts or projections and agreed upon procedures)</u></p>   | <p>_____</p> | <p>_____</p> |
| <p>e. Whether or not the engagement is an initial engagement</p>   | <p>_____</p> | <p>_____</p> |
| <p>9. On the schedule of engagements, <u>peer review must select and must cover engagements should be listed separately (Interpretations 63-1 and 63-3), including: <del>all</del> audits of employee benefit plans subject to ERISA, engagements performed under <i>Government Auditing Standards</i> (including OMB A-133 single audits), audits of depository institutions with \$500 million or more in total assets, carrying broker-dealers and examinations of service organizations (SOC 1 and SOC 2 engagements), <u>school districts and state and local governments should be highlighted</u>. If multiple engagements are performed for the same client, they should be identified separately. In addition, engagements that involve other offices of the firm or that were performed with other firms’ assistance should be identified.</u></p> | <p>_____</p> | <p>_____</p> |
| <p>10. Prior to the review, the review team will ask to interview members of the firm. Arrange for the selected individuals to be available.</p>   | <p>_____</p> | <p>_____</p> |
| <p>11. Complete working papers, reports, and the related financial statements for all the firm’s engagements should be available for review.</p>   | <p>_____</p> | <p>_____</p> |
| <p>12. All personnel files should be available for review.</p>   | <p>_____</p> | <p>_____</p> |
| <p>13. All independence representations obtained during the year should be available for review (if required by the firm’s policies and procedures).</p>   | <p>_____</p> | <p>_____</p> |
| <p>14. Documentation regarding the independence of any correspondent firms used during the year should be available for review.</p>  | <p>_____</p> | <p>_____</p> |
| <p>15. Documentation supporting resolution of any independence consultations during the year should be available for review.</p>   | <p>_____</p> | <p>_____</p> |
| <p>16. Have available appropriate CPE records for all personnel for the three most recent educational years.</p>   | <p>_____</p> | <p>_____</p> |
| <p>17. Have available communications relating to allegations or investigations of deficiencies (including litigation) in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm since the firm’s last peer review year end.</p>  | <p>_____</p> | <p>_____</p> |

- 18. Documentation regarding consultations with outside parties on accounting and auditing matters should be available for review. \_\_\_\_\_
- 19. Make available the firm's monitoring reports or related information since the last peer review, including internal inspection report, that documents the scope of the monitoring procedures, the findings, and any recommendations for corrective action. \_\_\_\_\_
- 20. Take appropriate measures, if any, to satisfy the firm's obligations concerning client confidentiality. \_\_\_\_\_

## **Appendix D**

### **Timeline of Peer Review Process and Significant Events**

See below for a timeline of the approximate timing of significant events occurring during the peer review process. The timeline is intended to highlight that the peer review process requires an investment of time by both the firm and the reviewer. A brief summary of the guidance for each of the significant events is below. For the complete guidance for each of these events, refer to the Standards and Interpretations.

#### **Enrollment in the Peer Review Program**

By the report date of the firm's first reviewable engagement, a firm should complete and submit the peer review enrollment materials to the administering entity. Once enrolled, a due date for the firm's initial review is assigned, generally 18 months from the report date of the first engagement causing the firm to be enrolled in the program.

#### **Scheduling the Review**

Approximately six to nine months before a firm's review due date, the administering entity will send a firm scheduling form to complete and submit in order for the review to be scheduled. To provide sufficient time to the firm, the peer review should ordinarily be conducted within three to five months after the end of the year to be reviewed. Background information from the completed scheduling forms, such as composition of practice and selected peer reviewer, is entered into an AICPA database accessible by administering entities to determine whether the reviewer is qualified. The administering entity is responsible for approving a reviewer and once approved, the peer review is scheduled, usually within two months after the scheduling forms are received. Approval must be obtained prior to commencement of the review.

#### **Performing the Review**

When all requested documents are received by the reviewer from the reviewed firm, they will be evaluated to determine the appropriate report. A closing meeting will be held in which the reviewer will provide preliminary results of the peer review to include, but not be limited to, matters, findings, deficiencies, and significant deficiencies. The closing meeting may need to occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to matters identified in the review and for the team captain/review captain to assess the impact of the firm's responses on the peer review, if any.

The reviewer will then schedule an exit conference prior to, but no later than, the peer review due date. During the exit conference, the final peer review results will be discussed as well as the process following the exit conference, including Report Acceptance Body (RAB) evaluation and acceptance. The peer reviewer is responsible for submitting the peer review working papers to the administering entity and for issuing the report to the firm within 30 days of the exit conference or by the firm's peer review due date, whichever is earlier. Depending upon the results of the review, for example when there were no matters noted that require follow up by the firm, the closing meeting and exit conference may be the same date.

#### **Administrative and Technical Reviews**

Once the reviewer has completed the review and all materials have been submitted to the administering entity, the working papers will go through an administrative and technical review. The administrative review ensures all required documents from the reviewer are received and complete. During the technical review, the working papers submitted by the reviewer are evaluated to determine whether the review has been conducted in accordance

with the Standards and whether the firm has responded to any matters, findings, deficiencies or significant deficiencies in an appropriate manner.

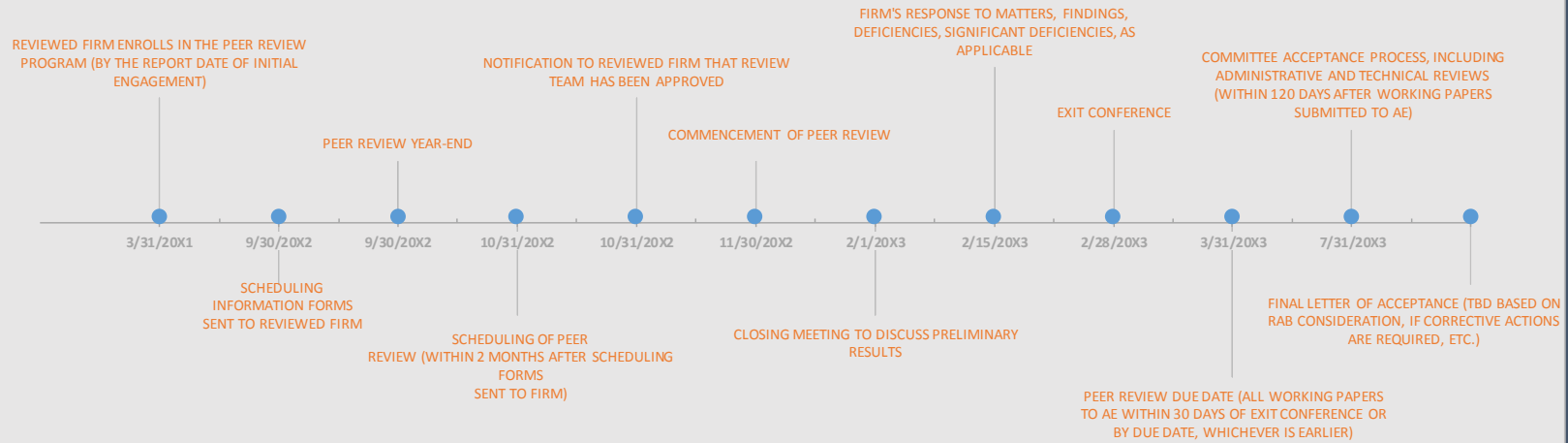
**Review Evaluation, Acceptance, and Completion**

Upon completion of the technical review, reviews are presented for consideration of acceptance at the RAB meeting with attention given to team captain/review captain and technical reviewer recommendations. Peer reviews are presented ordinarily within 120 days after working papers are received by the administering entity. The RAB reviews the report and applicable supporting documentation and determines if the review can be accepted or if additional conditions must be met. If no corrective actions are necessary, the completion date of the review is the acceptance date. If corrective actions are necessary, the review is considered completed when the firm has performed the corrective actions to the RAB's satisfaction.

## Example Timeline of Peer Review Process

AICPA Peer Review Program

### Example Timeline of Peer Review Process



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## PRP Section 4200

### *Instructions to Reviewers Performing System Reviews*

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#### Introduction

- .01** The purpose of these instructions is to provide overall guidance for review teams assigned to peer reviews under the auspices of the AICPA Peer Review Program (the program). The instructions should be read in conjunction with section 1000, *Standards for Performing and Reporting on Peer Reviews*; section 2000, *Peer Review Standards Interpretations*; section 3000, *Other Guidance*; and materials issued to accomplish the goals of the program. System Reviews should generally be documented using the programs and checklists issued by the AICPA Peer Review Board (refer to Interpretation No. 24-1). Questions regarding these instructions or any other materials or about the review in general should be directed to AICPA Peer Review staff at 919.402.4502, or by e-mail at [prptechnical@aicpa.org](mailto:prptechnical@aicpa.org).
- .02** System Reviews are intended to provide the review team with a reasonable basis for expressing an opinion on whether, during the year under review, a reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (see Statement on Quality Control Standards [SQCS] No. 8, *A Firm's System of Quality Control* [AICPA, *Professional Standards*, QC sec. 10]), and was being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

#### Independence and Conflict of Interest

- .03** Independence in fact and in appearance with respect to the reviewed firm must be maintained by the reviewing firm, by review team members, and by any other individuals who may participate in the review (See Interpretations 21-1 through 21-20 "Independence, Integrity, and Objectivity," of paragraph .21 in section 1000 (sec. 2000 question 21-1-20). The "Integrity and Objectivity Rule" and its interpretations (AICPA, *Professional Standards*, ET sec. 1.100.001), and the "Independence Rule" and its interpretations (AICPA, *Professional Standards*, ET sec. 1.200.001), of the AICPA *Code of Professional Conduct*, does not specifically consider relationships between review teams, reviewed firms, and clients of reviewed firms. However, the concepts pertaining to independence embodied in the *Code of Professional Conduct* should be considered in making independence judgments. See section 1000 paragraphs .21–.22.
- .04** A reviewing firm or a review team member should not have a conflict of interest with respect to the reviewed firm or to those clients of the reviewed firm who are the subject of engagements reviewed.

#### Organization of the Review Team

- .05** A System Review team ordinarily should be approved by the administering entity prior to the planning and commencement of the peer review, which is when the review team begins field work, ordinarily at the reviewed firm's office. A review team is headed by a team captain who is responsible for supervising and conducting the review, communicating the review team's findings to the reviewed firm and to the administering entity, preparing the report on the review, and ensuring that peer review documentation is complete and submitted to the administering entity on a timely basis. If applicable, the team captain

should supervise and review the work performed by other reviewers on the review team to the extent deemed necessary under the circumstances. The team captain will furnish instructions to the review team regarding the manner in which materials and other notes relating to the review are to be accumulated to facilitate summarization of the review team's findings and conclusions. The team captain must notify the administering entity of changes, if any, in the composition of the review team and in the date of the exit conference. See section 1000 paragraphs .26–.30.

## Scope of Review

- .06** The scope of the review should cover a firm's accounting and auditing practice, which is defined in section 1000 paragraph .06, and the system of quality control for the peer review year. Reviewers should confirm the peer review year end with the firm prior to planning the review. The list of engagements provided to the team captain should include all engagements with periods ended during the year under review, regardless of whether the engagement reports are issued. For financial forecasts and projections and agreed upon procedures, the list should identify these engagements based on report date. If the current year's engagement has not been completed or issued, the reviewer should ~~review~~refer to section 1000, paragraph .58 and related interpretations. Other segments of a firm's practice, such as providing tax services or management advisory services, are not encompassed by the scope of the review except to the extent they are associated with financial statements (for example, reviews of tax provisions and accruals contained in financial statements are included in the scope of the review). Review team members are not to have contact with, or access to, any client of the reviewed firm in connection with the review.
- .07** The review team should also obtain a sufficient understanding of the reviewed firm's system of quality control with respect to each of the quality control elements in SQCS No. 8 to plan the review (see Interpretation No. 42-1 "Understanding the Firm's System of Quality Control"). SQCS No. 8 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The understanding obtained by the review team should include knowledge about the design of the reviewed firm's quality control policies and procedures in accordance with quality control standards established by the AICPA and how the policies and procedures identify and mitigate risk of material non-compliance with applicable professional standards.
- .08** The team captain should ~~review section 4750, Managing Partner/Chief Executive Office Interview Questionnaire, completed by meet with the firm and conduct the interview. The objective of the interview is firm's managing partner or person responsible for the firm's system of QC to assist the peer review team in gaining gain~~ an understanding of the firm leadership's involvement with its system of quality control. ~~The questionnaire is designed to facilitate the interview and~~The discussion will help the review team gain an understanding of management's philosophy towards and support of the quality control initiatives in the firm and should be considered in assessing inherent and control peer review risk. The ~~in-~~terviewdiscussion should occur during the planning stage or early in the peer review. In addition to the managing partner or person responsible for the firm's system of QCCEO interviewdiscussion, the review of the firm's quality control policies and procedures include interviews of the reviewed firm's management and staff. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated. The review team may perform one-on-one staff interviews or, depending on the size of the firm, focus groups (see section 4700, *Staff Interview Questionnaire*).
- .09** The review team should discuss with the reviewed firm whether litigation, proceedings, or investigations against the firm or its personnel since the date of the firm's last peer review involve the same offices, industries, audit areas, or engagement personnel, and whether the firm has considered any such patterns



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

- .10** The review team should obtain the reviewed firm's latest peer review report, letter of response, and Finding for Further Consideration (FFC) form(s), if applicable, [firm representation letter](#) and should consider whether matters discussed therein require additional emphasis in the current review. In all cases, the review team should evaluate the actions taken by the firm in response to the prior report. <sup>fn+1</sup>[Refer to Interpretation 39-1, Planning Considerations for more information.](#)
- .11** The review team should obtain a sufficient understanding of the reviewed firm's monitoring policies and procedures since its last peer review, and their potential effectiveness, to plan the current peer review. In doing so, the review team may determine that the current year's internal monitoring procedures could enable the review team to reduce, in a cost-beneficial manner, the number of offices and engagements selected for review or the extent of the functional area review. If the review team contemplates reducing scope based on the reviewed firm's internal inspection process, refer to Interpretations 45-1 and 2, "Considering the Firms Monitoring Procedures," of paragraph .45 in section 1000 (sec. 2000), for more information.

## Peer Review Risk

### Assessing Peer Review Risk

- .12** In planning the review, the review team should use the understanding it has obtained of the reviewed firm's accounting and auditing practice and its system of quality control to assess the inherent and control risks. The assessment of risks is qualitative and not quantitative. The lower the inherent and control risk, the higher the detection risk that can be tolerated and vice versa. Based on its assessment of inherent and control risk, the review team determines the acceptable level of detection risk.
- .13** When assessing risk, the review team should evaluate the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the requirements contained in SQCS No.

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<sup>fn+1</sup> ~~Add the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.~~

8. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

### **Relationship of Risk to Scope**

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

**.15** However, even when the combined assessed levels are low, the peer review team must review some engagements to obtain reasonable assurance that the reviewed firm is complying with its quality control policies and procedures and applicable professional standards. For the review team to obtain such assurance, a reasonable cross section of the reviewed firm's accounting and auditing engagements must be reviewed or inspected, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk (see Interpretation No. 52-1).

### ***Inherent Risk Factors***

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

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

### ***Control Risk Factors***

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

each of the elements of quality control in the context of the firm's overall control environment and the inherent risk embodied in its accounting and auditing practice.

.18 Sections 4500 to 4650, Guidelines for Review and Testing of Quality Control Policies and Procedures will assist reviewers with assessing the design of quality control policies and procedures and will assist with testing of functional areas. The conclusions reached as a result of this checklist should be considered when determining overall peer review risk.

**.1819** The assessed levels of risk are the key considerations in deciding the number and types of engagements to review and, where necessary, offices to visit. Through the assessment of risk, the reviewer determines the coverage of the firm's accounting and auditing practice that will result in an acceptably low peer review risk. Engagements selected should provide a reasonable cross-section of the firm's accounting and auditing practice, with a greater emphasis on those engagements in the practice with higher assessed levels of peer review risk.

**.1920** Reviewers must document, as part of the Summary Review Memorandum (SRM), the risk assessment of the firm's accounting and auditing practice and its system of quality control, the number of offices and engagements selected for review, and the basis for that selection in relation to the risk assessment. To effectively assess risk of the firm's accounting and auditing practice and its quality control policies, risk assessment documentation should not only address the engagements selected and the reasoning behind that selection, but also the environment of the firm and its system of quality controls. Some additional factors that should be considered in assessing risk include the following:

- The relationship of the firm's audit hours to total accounting and auditing hours
- Size of the firm's major engagement(s), relative to the firm's practice as a whole
- Initial engagements and their impact on the firm's practice
- The industries in which the firm's clients operate, especially the firm's industry concentrations
- The results of the prior peer review
- ~~• Owners' continuing professional education (CPE) policies and the firm's philosophy toward continuing education<sup>fn-2</sup>~~
- ~~• The firm's monitoring policies~~
- The results of the team captain's assessment of the firm's design of quality controls in accordance with SQCS 8.

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<sup>fn-2</sup> ~~For example, did the firm accumulate the necessary hours or maintain the needed skills and improve delivery of professional services?~~

- The firm’s approach to ensuring a complete and accurate engagement listing for its internal monitoring and for the peer review
- ~~Adequacy of the firm’s professional library~~
- Risk level of the engagements performed<sup>fn 3</sup>
- Changes to the firm’s structure or personnel since the prior peer review

### **Detection Risk**

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

### **Engagement Selection**

**.21** Engagements selected for review should provide a reasonable cross section of the reviewed firm’s accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk. The initial selection of engagements to be reviewed should be provided to the reviewed firm, but no earlier than three weeks before the commencement of the peer review at the related practice office or location. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed should be provided to the firm only once the review has commenced and not provided to the firm in advance. Ordinarily, based on the nature of the firm’s practice and assuming that the engagement would not be automatically anticipated for selection by the reviewed firm, the engagement should be an audit. Otherwise, the engagement should be the firm’s next highest level of service where the same criteria can be met. This should not increase the scope of the review.

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

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<sup>fn 3</sup> For example, does the firm perform audits of employee benefit plans, entities subject to Circular OMB A-133, and others under *Government Auditing Standards*, HUD-regulated entities, and other with high-risk features or complex accounting or auditing applications?

## Review of Engagements: Objectives, Approach, and Technique

- .23** The objectives of the review of engagements are to obtain evidence of (1) whether the reviewed firm's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA (see SQCS No. 8) and (2) whether the reviewed firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The review should give primary emphasis to the reviewed firm's overall approach to the engagement, rather than the specific procedures performed.
- .24** To the extent necessary to achieve these objectives, the review of engagements should include review of financial statements, accountants' reports, accounting and audit documentation, and correspondence, and should include discussions with personnel of the reviewed firm.
- .25** Because, in most cases, the engagement personnel will not be responsible for establishing firm policies, the review team should not challenge firm policies in discussions with engagement personnel. If any questions or observations regarding the appropriateness of the firm's policies and procedures develop as a result of the Engagement Reviews, these matters should be discussed with the team captain.
- .26** Background information for an engagement should be obtained by discussion with the engagement partner and by reading the primary financial statements, and any program sections, memorandums, or other engagement documentation describing the company and its business, the firm's approach, and problem areas. In addition, the reviewer should read the engagement profile section of the applicable engagement checklist, which should be completed by the reviewed firm prior to commencement of the review of the engagement. The engagement profile provides a "picture" of the engagement and, for audit engagements (including those performed under *Government Auditing Standards*, and audit engagements of nonprofit and employee benefit plans) includes the reviewed firm's description of the engagement's risk assessment. After considering the background information obtained, the reviewer can identify and document the highest risk audit areas to review on audit engagements.
- .27** The review is most efficiently performed by first reading the auditor's or accountant's report and responding to reporting and disclosure questions in the engagement checklist, then reviewing the working papers and correspondence and responding to questions related to general procedures and the highest risk audit areas, then responding to questions on the reviewed firm's approach to the highest risk audit areas and functional areas, and finally reaching conclusions on whether the objectives in reviewing the engagements were met.
- .28** Audit engagements have areas in which risk may be inherently significant, such as, but not limited to, fraud considerations, use of estimates, emerging issues, risk assessments, and assertions that are difficult to audit. The review team's procedures should include determining whether the reviewed firm has appropriately
- a. identified the highest risk audit areas on each audit engagement selected for the peer review,
  - b. performed the necessary audit procedures related to the identified highest risk audit areas, and
  - c. documented the auditing procedures performed in these highest risk audit areas.
- .29** Failure to complete all relevant materials and checklists may create the presumption that the review has not been performed in conformity with these standards.

## Emphasis on Highest Risk Audit Areas

**.30** The depth of the review of engagement documentation for particular engagements is based on the judgment of the reviewers; however, the review should ordinarily include all the highest risk audit areas of an engagement. Thus, a page-by-page review of all working papers is not contemplated. Points to consider in determining the highest risk audit areas include

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

**.31** The selection of the highest risk audit areas should be directed toward maximizing the effectiveness of the review, as well as determining the extent to which the firm's personnel recognized the highest risk audit areas. For example, in some of the initial audit engagements or specialized industry engagements selected for review, attention might be limited to the special areas of the engagements because the engagements were specifically selected to test those areas. In such cases, the reviewer should document such considerations in the working papers.

**.32** No definitive guidance can be provided regarding the depth of review to be given to the highest risk audit areas, but the reviewer should evaluate whether the firm has obtained sufficient competent evidential matter to form conclusions concerning the validity of the assertions of material significance embodied in the financial statements (see AU-C section 500, *Audit Evidence* [AICPA, *Professional Standards*]).

## Findings and Conclusions

**.33** For each engagement reviewed, the review team must evaluate and document, based on its review of the engagement working papers and representations from the reviewed firm's personnel, whether anything came to the review team's attention that caused it to believe ~~that~~that (1) the financial statements were not presented in all material respects in accordance with generally accepted accounting principles (GAAP), (2) the firm did not have a reasonable basis under the applicable professional standards for the report issued, (3) the documentation on the engagement did not support the report issued, or (4) the firm did not comply with its quality control policies and procedures in all material respects. Accordingly, a conclusions page must be completed for each engagement reviewed to summarize the results of that re-

view. Refer to exhibit A in PRP section 1000 paragraph .71 for further detail of the decision making process for determining whether an item noted during a System Review is a matter, finding, deficiency, or significant deficiency.

**.34** In performing reviews of engagements, the review team may encounter (1) indications of failures by the reviewed firm to reach appropriate conclusions in the application of professional standards which include generally accepted auditing standards (GAAS), Statements on Standards for Attestation Engagements (SSAEs), Statements on Standards for Accounting and Review Services (SSARSs), and GAAP (for example, the reviewed firm may have issued an inappropriate report on a client's financial statements or omitted a necessary auditing procedure), or (2) situations in which the documentation on the engagement does not appear to support the report issued. In either case, the team captain shall promptly inform an appropriate authority within the reviewed firm. In such circumstances the reviewed firm should investigate the issue questioned by the review team and determine what action, if any, should be taken.<sup>fn 4</sup> The reviewed firm should advise the review team of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required on the related Matter for Further Consideration (MFC) form.

**.35** A peer reviewer notes a *matter* as a result of his or her evaluation of the design of the reviewed firm's system of quality control or tests of compliance with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm's system of quality control. Matters are typically one or more no answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm's system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form. If the matter, after further evaluation, gets elevated to a finding but not a deficiency or significant deficiency, it is documented on a FFC form. The FFC form is a standalone document that includes the ~~reviewer's recommendation~~description of the finding, the systemic cause, if known, and. ~~The FFC form also includes~~ the reviewed firm's response regarding actions planned or taken and the timing of those actions, that describes how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable. MFC and FFC forms are subject to review and oversight by the administering entity, who will evaluate the reviewed firm's FFC form responses for appropriateness and responsiveness and determine whether any follow up action is necessary. If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is communicated in the report itself, ~~along with the reviewer's recommendation.~~ The firm submits a letter

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<sup>fn 4</sup> The reviewed firm is required under generally accepted auditing standards and the Statements on Standards for Accounting and Review Services to take appropriate action under certain circumstances with respect to (1) subsequently discovered information that relates to a previously issued report or (2) the omission of one or more procedures considered necessary to support a previously expressed opinion. (See AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* [AICPA, *Professional Standards*]; AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* [AICPA, *Professional Standards*]; paragraph .54 of AR section 90, *Review of Financial Statements* [AICPA, *Professional Standards*]; and paragraph .47 of AR section 80, *Compilation of Financial Statements* [AICPA, *Professional Standards*].)



of response regarding actions planned or taken and the timing of those actions by the firm, which is also evaluated for appropriateness and responsiveness.

**.36** A *finding* is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a FFC form. Findings will be evaluated and, after considering the nature, systemic causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency. A matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.

~~**.37** If the reviewed firm believes after investigating the matter that it can continue to support its previously issued report or prepared financial statements, it should provide the review team with a written explanation of the basis for its conclusion (generally on a MFC form). If the explanation appears reasonable, the review team should consider whether the documentation of the engagement supports the report issued. In evaluating the responses, the review team should recognize that it has not performed an audit of the financial statements in accordance with GAAS (or reviewed, compiled, or prepared them in accordance with the SSARs) and that it has not had the benefit of access to the client's records, discussions with the client, or specific knowledge of the client's business.~~

**.3837** A *deficiency* is one or more findings that the peer reviewer has concluded, due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.

**.3938** A *significant deficiency* is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of *fail*.

~~**.4039** After reviewing the documentation supporting the actions planned or the documentation explaining why no action is required, the review team may continue to question whether there is a significant failure to reach appropriate conclusions in the application of professional standards. In such cases, the review team would promptly inform an appropriate authority in the reviewed firm and pursue any remaining questions. The firm should respond to all matters communicated on an MFC form, findings communicated on an FFC form and deficiencies, or significant deficiencies communicated in the peer review report. The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference.~~

.40 The team captain should review and evaluate the firm’s responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the firm’s response should be discussed during the exit conference. The firm’s letter of response should be finalized and dated as of the exit conference date and provided to the team captain. The team captain should include the firm’s letter of response with his or her report and working papers submitted to the administering entity.

.41 Further detail is included in the following subsections of section 1000:

- “Identifying Matters, Findings, Deficiencies, and Significant Deficiencies” (par. .69–.74)
- “Aggregating and Systemically Evaluating Matters” (par. .75–.86)
- “Forming Conclusions on the Type of Report to Issue in a System Review” (par. .87–.90)

## Expansion of Scope

.42 If, during the course of the peer review, the review team concludes that there was a failure to reach an appropriate conclusion on the application of professional standards in all material respects on one or more of its reviewed engagements, the review team should consider whether the application of additional review procedures is necessary. This consideration should be documented in the peer review working papers. The objective of the application of additional procedures would be to determine whether the failure is indicative of a pattern of such failures, whether it is a significant deficiency in the design of the reviewed firm’s system of quality control or in its compliance with the system, or whether it is both. Under some circumstances, the review team may conclude that, because of compensating controls, or for other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or relevant portions of one or more additional engagements or aspects of functional areas. Such additional engagements may be in the same industry, or supervised by the same individual in the reviewed firm, or otherwise have characteristics associated with the failure to perform or report in conformity with professional standards. Regardless of the conclusion about scope expansion, the team captain should evaluate the firm’s planned or taken remediation of the engagement and determine if lack of an appropriate response indicates there are other weaknesses in the firm’s system. For example, an inappropriate response may be indicative of a potential failure to comply with the leadership or tone at the top element in the firm’s system of quality control. A failure to properly consider how to address nonconforming engagements may indicate an internal firm culture that fails to promote that quality is essential in performing engagements.

## General Guidelines for Writing Reports

.43 A review team may issue a report with one of the following peer review ratings:

- Pass*
- Pass With Deficiencies*
- Fail*

.44 There is a presumption that all engagements and all aspects of functional areas subject to the peer review will be included in the scope of the review. Should a rare situation occur where an engagement or functional area is being considered for exclusion from the population for selection, the team captain should

consider the guidance in paragraph .55 of section 1000, Interpretation No. 55-1, “Inclusion of Engagements and Aspects of Functional Areas in the Scope of the Peer Review,” of paragraph .55 in section 1000 (sec. 2000), and contact the administering entity.

- .45 The report should include all of the applicable elements identified in paragraph .96 of section 1000.
- .46 The report on a System Review should be issued on the team captain firm’s letterhead and signed in the team captain firm’s name for firm-on-firm and association formed review teams.
- .47 The report should be addressed to the partners (or other appropriate terminology) of the reviewed firm and the administering entity peer review committee and should be dated as of the date of the exit conference.
- .48 The report should use a plural pronoun in a statement, such as “we have reviewed,” even if the review team consists of only one person. The singular pronoun in a statement, such as “I have reviewed,” is appropriate only when the reviewed firm has engaged a sole practitioner to perform its review.
- .49 For illustrative examples of various System Review reports, please refer to the appendixes in section 1000.
- .50 If a firm performing accounting and review services (but no engagements under the Statements on Auditing Standards, *Government Auditing Standards*, or examinations of prospective financial statements or examinations of a service organization’s controls likely to be relevant to user entities’ internal control over financial reporting under the SSAEs) elects to have a System Review, the report should be appropriately tailored to reflect this fact as discussed in Interpretation No. 103-1, “Election to Have a System Review.”
- .51 For additional guidance and examples of writing deficiencies ~~and recommendations~~ included in System Review reports with a peer review rating of *pass with deficiencies* or *fail*, see section 4250, *Guidance for Writing Deficiencies and Significant Deficiencies Included in System Review Reports* ~~*Examples of Deficiencies and Case Studies on Writing Deficiencies on System Reviews*~~.
- .52 An optional checklist is included in appendix A, *Checklist for Reviewing Drafts of System Review Reports*, to assist reviewers in determining if the report contains all the appropriate language and elements.

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

- ~~.53 The criteria for identifying matters, findings, deficiencies and significant deficiencies for System Reviews are discussed in paragraphs .69–.90 of section 1000. This section assumes that the team captain has already made the determination that a deficiency or significant deficiency exists.~~

### **Points to Consider When Writing Deficiencies or Recommendations To Be Included in a Report With a Rating of Pass With Deficiencies or Fail**

- ~~.54 On a System Review, the deficiencies in the report should be written with a systemic orientation and include
  - ~~a. what the firm’s policies and procedures include or exclude (what the system is designed to do or not designed to do). This sets up the written deficiency in the report to articulate whether the firm’s system of quality control is designed in accordance with professional standards or is not. The deficiency is related to the design of the firm’s system of quality control or related to the firm’s failure to comply with or document its compliance with an appropriately designed system.~~~~

- ~~b. what the underlying cause of the deficiency was. What happened (design failure or pervasive compliance issues) that caused the deficiency? This is often the most difficult area to identify when writing a deficiency but is also extremely important to identify the cause and not just the firm's failure to comply with professional standards in all material respects. This is ultimately what the firm will need to change (the design of its system of quality control or how the firm complies with an appropriately designed system) in order for the deficiency not to recur.~~
- ~~c. the failure to comply with professional standards in all material respects.~~
- ~~d. an identification of the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific. For example, when there are numerous documentation or performance deficiencies that occur in several unrelated industries (not unique to one), then the industry wouldn't be specifically identified. However, if the deficiencies are related to a specific industry (such as the failure to document several procedures performed on Employee Retirement Income Security Act [ERISA] audits) then the industry and level of service would be identified.~~
- ~~e. grouping issues with the same underlying cause that meet the threshold of a deficiency, into a single deficiency.~~
- ~~f. using the term *significant deficiencies* as a caption before all of the identified deficiencies only when a report with a peer review rating of *fail* is issued.~~
- ~~g. "closing the loop," which is ordinarily the last sentence (except for item *h* that follows when applicable) when writing the engagement deficiency. Although a deficiency is systemic-oriented, this sentence explains the firm's actions (or why it isn't taking any actions) on engagements deemed not to comply with professional standards in all material respects. Examples of specific language for closing the loop may include, but are not limited to, the following:~~
- ~~• The report on these financial statements has been recalled, the financial statements are being revised, and the report will be reissued.~~
  - ~~• As a result of this omitted documentation, the firm performed the necessary additional documentation procedures to provide a satisfactory basis for its opinion.~~
  - ~~• Although the firm believes that the existing documentation provides for a satisfactory basis for its opinion, the firm included additional documentation procedures on the engagement.~~
- ~~h. if any of the current deficiencies or significant deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, that fact should be identified by stating, "this deficiency was noted in the firm's previous peer review."~~

~~.55 On a System Review, written deficiencies should avoid~~

- ~~a. including personal preferences. Deficiencies should be based on professional standards and the firm's compliance with its system of quality control. Reviewers are occasionally surprised to find that some generally accepted professional standards are, in reality, only a preferred treatment by their firm.~~

- ~~b. referencing specific individuals, offices, or third party practice aids.~~
- ~~c. using undefined acronyms such as GAAP, GAAS, CPE or FASB.~~
- ~~d. identifying the exact number or frequency of occurrence. Terms such as *in some instances* or *frequently* should be used.~~
- ~~e. identifying references to specific technical standards, unless it is critical to the understanding of the deficiency, in which case then the deficiency should be written in a sufficient and succinct manner describing the technical standards in the proper context. Otherwise, the use of the general term *professional standards* should be used.~~
- ~~f. grouping unrelated issues (different underlying causes) into a single deficiency.~~
- ~~g. including poor firm administration or engagement inefficiencies that ordinarily do not create a condition in where there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements in all material respects.~~
- ~~h. using titles preceding the deficiency that include *design deficiency* or *compliance deficiency* or the applicable functional element of quality control.~~

~~.56 Recommendations that follow the deficiencies or significant deficiencies included in the report should be very specific and not a reiteration of the deficiency or significant deficiency. Recommendations should focus on the underlying cause of the firm's deficiencies or significant deficiencies and what the firm needs to do to correct its design of its system of quality control or compliance with it. Care should be taken not to overemphasize the use of standardized forms and checklists as a recommendation for improving the firm's system of quality control. Recommendations may exceed what is required by professional standards but if such a recommendation is being made, it should indicate so.~~

## ~~Other Considerations~~

### ~~Design Matters~~

~~.57 A design matter exists when the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would not result in engagements performed or reported on in accordance with professional standards in some respect. To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with.~~

~~.58 The team captain should follow the standards, interpretations, and other guidance in determining whether matters and findings identified have met the threshold for being a design deficiency (to be included in a report with a rating of *pass with deficiencies*) or a significant deficiency (in a report with a rating of *fail*). Actual deficiencies and significant deficiencies should be prepared based on the specific facts and circumstances.~~

### ~~Compliance Matters~~

~~.59 A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Because a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.~~

~~.60 The team captain should follow the standards, interpretations, and other guidance in determining whether matters or findings identified have met the threshold for being a compliance deficiency (to be included in a report with a rating of *pass with deficiencies*) or a significant deficiency (in a report with a rating of *fail*). Actual deficiencies and significant deficiencies should be prepared based on the specific facts and circumstances.~~

### **General Guidelines for Describing Deficiencies**

~~.61 In addition to the elements included in paragraph .54 of the preceding, in describing a systemic weakness in the design of the reviewed firm's system of quality control or instances of noncompliance, the deficiency ordinarily can be described in the following manner:~~

~~*a.—Design deficiency*~~

~~(1) State what the system does or does not require.~~

~~(2) State underlying cause if appropriate.~~

~~(3) State whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date*, and AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, *Professional Standards*), or (b) lacked a reasonable basis under the SSARSs or SSAEs, for the reports issued—were attributable to the design weakness.~~

~~(4) Describe the effect, if any, that the finding had on the financial statements or the firm's report issued. However, the actual comment or deficiency in paragraph .61a(3)(a) would not specifically reference AU-C section 585 and so on, but rather would use the phrase *consideration of omitted procedures after the report date as required by professional standards*, for example.~~

~~*b.—Instances of noncompliance (including performance and documentation)*~~

~~(1) State what the system requires.~~

~~(2) State the underlying cause of the deficiency.~~

~~(3) State the frequency of noncompliance in general terms.~~

~~(4) If appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to AU-C sections 560 and 585 or (b) lacked a reasonable basis under the SSARS or SSAEs for the reports issued—were attributable to the instances of noncompliance~~



~~(5) Describe the effect, if any, that the instances of noncompliance had on the financial statements or the firm's report issued. However, the actual comment or deficiency in paragraph .61b(3)(a) would not specifically reference AU-C section 585 and so on., but rather would use the phrase *consideration of omitted procedures after the report date as required by professional standards*, for example.~~

~~.62 Appendix B contains a checklist for reviewing drafts of the deficiencies or significant deficiencies included in reports with a rating of *pass with deficiencies* or *fail*, respectively.~~

### **Guidance for Determining Whether a Current Deficiency Was Noted in Connection With a Prior Peer Review**

~~.63 When determining whether to identify that a current deficiency was noted in the previous peer review or peer reviews, the focus is the system of quality control weakness (that is, the underlying cause) noted in either the current report (deficiency) and either the report or the FFCs in connection with the reviewed firm's prior review, the team captain should read the prior report and FFCs and letter of response, if applicable, and evaluate whether the actions outlined in the response have been implemented. If the actions have been implemented and the same engagement deficiencies are occurring (such as incomplete or omitted disclosure deficiencies), the team captain should, with the reviewed firm's assistance, determine the weakness in the firm's system of quality control that could be causing the engagement deficiencies to continue to occur.~~

#### **Example 1:**

~~.64~~

~~The following comment and recommendation and response were included on a FFC on its prior review:~~

~~*Comment*—The firm's quality control policies and procedures require the firm to complete a disclosure checklist on all engagements. Our review discovered that these checklists were not completed on all engagements. Disclosure deficiencies were noted in related party transactions and lease commitments. None of these omitted or incomplete disclosures were considered significant departures from professional standards.~~

~~*Recommendation*—The firm should reemphasize its policies regarding the completion of a comprehensive disclosure checklist on all accounting and auditing engagements. These checklists should be completed by a member of the engagement team, reviewed by the engagement partner, and retained with the engagement working papers.~~

~~*Response*—The firm has reemphasized its policies regarding the completion of a comprehensive disclosure checklist on all accounting and auditing engagements. These checklists will be completed by a member of the engagement team, reviewed by the engagement partner, and retained with the engagement working papers.~~

#### **Results on Current Review**

~~In the performance of the current year's review, the team captain noted the firm personnel are completing a disclosure checklist on all accounting and auditing engagements. However, some very material disclosure deficiencies are still noted regarding share-based payment arrangements and accounting changes and error corrections.~~



## Comparison of Prior Peer Review and Current Engagement Deficiencies

In this example, the firm reinforced its policy on the use of a disclosure checklist in its FFC response on the previous review. Therefore, the team captain must look for other weaknesses in the firm's system of quality control related to the disclosure deficiencies.

The team captain noted that both share-based payment arrangements and accounting changes and error corrections were covered by recently issued or revised professional standards and that share-based payment arrangements was a complex area that often requires special training. Upon further investigation, the team captain also found that firm personnel have taken the CPE required by the state board of accountancy and the AICPA, but engagement partners had little or no recent CPE on current developments in accounting and auditing. Therefore, the team captain concluded the underlying cause of the disclosure deficiencies is a weakness in the firm's professional development (Human Resources) policies because those policies do not require that sufficient courses be taken on new accounting pronouncements and on specialized areas. Because this was not noted in the prior review, the deficiency in the current review would not be identified as being noted on the previous peer review.

### Example 2:

.65

The following comment and recommendation and response were included in the FFC on its prior review.

*Comment*—The firm's quality control policies and procedures require consultation in situations that involve complex subject matters or newly issued technical pronouncements. During our review, we noted several instances where the firm researched the issues encountered, but failed to consult with the individual designated in the quality control document. The firm issued several reports for a governmental entity that did not include all required language to comply with professional standards. The reporting deficiencies were not of such significance to make the auditor's reports misleading.

*Recommendation*—The firm should reemphasize its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters.

*Response*—In a meeting held on October 15, 20XX, we reviewed our policies regarding consultation with all of our accounting and auditing staff and encouraged the staff to consult with or use authoritative sources on complex or unusual matters as specified by firm policy.

### Results on Current Review

In the performance of the current year's review, the review team confirmed that the meeting of October 15, 20XX took place and that the firm's consultation policies were reviewed at that meeting. However, the review team also found that issues requiring consultation, such as accounting for derivatives and asset retirement obligations, were not presented or disclosed appropriately.

## Comparison of Prior Peer Review and Current Engagement Deficiencies

Upon further research, the team captain discovered that the staff members researched these issues internally, but failed to consult with the partner designated as the consultant for these complex issues as required under the firm's system of quality control. Because the current engagement deficiencies are

~~caused by the same weakness in the firm's system of quality control noted in the prior review (and the team captain determined that on the current review that the findings met the threshold for inclusion as deficiencies in a peer review report with a rating of *pass with deficiencies*), this deficiency would be identified as being noted in the previous peer review.~~

## Completion of the Review

- ~~.66~~ In order to document the disposition of all the MFCs, the team captain completes a Disposition of Matter for Further Consideration (DMFC) form. The DMFC form is part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each concerning whether it was cleared, discussed with the firm during the closing meeting or exit conference, included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of *pass with deficiencies* or as a significant deficiency in a report with a peer review rating of *fail*.
- ~~.67~~ The team captain, in collaboration with the firm, should determine the systemic cause of matters identified. A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected. Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control. To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures. The review team should consider their relative importance of the matters to the firm's system of quality control as a whole, including and their the nature, systemic causes, pattern, and pervasiveness, to determine the impact to the peer review report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.
- ~~.68~~ Proper application of the standards assists team captains in evaluating the systemic cause of matters and, as a result, the type of report to issue. Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the peer review.
- ~~.69~~ The exit conference marks the end of fieldwork, in all substantial respects. Prior to the issuance of its report, the reviewed firm should be informed about any matters documented on the MFC form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report to be issued. This communication ordinarily would take place at a meeting (exit conference) attended by appropriate representatives of the review team and the reviewed firm. The exit conference is also the appropriate vehicle for providing recommendations to the firm that do not affect the report, discussing new accounting and auditing issues to monitor, and providing guidance on how to write a letter of response, if applicable. During the exit conference, the review team should also remind the reviewed firm that they should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity as meeting the requirements of the program.
- ~~.70~~ It is normally expected that the managing partner and the partners having firm-wide responsibility for quality control and accounting and auditing will attend this meeting. The review team should notify the administering entity of the date and time of the scheduled exit conference to permit representatives of the administering entity or its staff to attend the exit conference if they so elect. The review team, except in

rare instances, should not hold the exit conference until the results of the peer review have been summarized and the report has been drafted or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty concerning the opinion to be expressed, the review team should postpone the exit conference until a decision has been reached. Reviewers should remind the firm that the report is not finalized and it may change and inform the firm that the Report Acceptance Body may require the firm to complete follow-up action(s).

.69 Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting. The team captain should ordinarily be physically present at the closing meeting, unless the System Review is performed at a location other than the reviewed firm's office. The closing meeting may also be attended by representatives of the administering entity, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.
- b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

.70 An exit conference will be held after the firm has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program.

c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

**.71** For the review of a multi-office firm, in addition to the communication described in the preceding paragraph, the review team for a practice office should communicate its findings to appropriate individuals at the office reviewed.

**.72** The firm is required to make specific representations as noted in paragraph .208, “Appendix B, Considerations and Illustrations of Firm Representations.” See section 1000 appendix B *Considerations and Illustrations of Firm Representations*. The written representations should be addressed to the team captain performing the peer review (for example, “To John Smith, CPA”). Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the peer review report or other peer review documents, the representations should be dated the same date as the peer review report and signed by individual members of the firm (not a firm signature).

~~Team captains should obtain the written representations, at a minimum relating to the following matters:~~

- ~~a.—Situations or a summary of situations where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) and, if applicable, how the firm has or is addressing and rectifying situations of non-compliance.~~
- ~~b.—Communications or summary of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within the three years preceding the firm’s current peer review year end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review (see Interpretation No. 181-1b-1 in section 2000). In addition, the reviewer may inquire if there are any other issues that may affect the firm’s practice.~~
- ~~c.—Restrictions or limitations on the firm or its personnel’s ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year end.~~
- ~~d.—Completeness and availability of the engagements with periods ending during the year under review. For financial forecasts or projections and agreed upon procedures, this includes those with report dates during the year under review.~~
- ~~e.—Discussions of significant issues from reports or communications, or both, from other practice monitoring or external inspection programs, such as the PCAOB (see Interpretation No. 40-1 and 181-1b-1 in section 2000), with the team captain.~~
- ~~f.—Other representations obtained by the team captain or review captain will depend on the circumstances and nature of the peer review.~~

~~See section 1000 appendix B *Considerations and Illustrations of Firm Representations*. The written representations should be addressed to the team captain performing the peer review. Because the team captain is concerned with events occurring during the peer review period and through the date of his or her~~

peer review report that may require an adjustment to the peer review report or other peer review documents, the representations should be dated the same date as the peer review report.

~~.73 If the reviewed firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity. Otherwise, the reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the team captain or by the firm's peer review due date, whichever date is earlier.~~

~~.74 If the reviewed firm receives a report with a peer review rating of *pass with deficiencies* or *fail*, the reviewed firm should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the team captain for review, evaluation, and comment.~~

~~.75 The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan the reviewed firm has implemented or will implement with respect to each finding. The firm's response should describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The team captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity (see Interpretation No. 99-1 in section 2000).~~

**.76** Within 30 days of the exit conference date or by the firm's peer review due date, whichever date is earlier on a System Review, the reviewer should ~~also~~ submit a copy of the documents listed in [appendix C](#) to the administering entity. Copies of the financial statements that were reviewed and the documentation provided by the reviewed firm should not be included in the working papers; they either should be destroyed or returned to the reviewed firm.

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

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

## Appendix A

# Checklist for Reviewing Drafts of System Review Reports

.79

	N/A	Yes	No <sup>fn 1</sup>
1. Does the report (as required by section 1000, <i>Standards for Performing and Reporting on Peer Reviews</i> )			
a. state at the top of the report the title “ <del>System Review Report- Report on the Firm’s System of Quality Control.</del> ”?		<input type="checkbox"/>	<input type="checkbox"/>
b. <u>Including headings for each of the following sections:</u>		<input type="checkbox"/>	<input type="checkbox"/>
• <u>Firm’s Responsibility.</u>			
• <u>Peer Reviewer’s Responsibility.</u>			
• <u>Required Selections and Considerations, if applicable.</u>			
• <u>Deficiency(ies) or Significant Deficiency(ies) Identified in the Firm’s System of Quality Control, if applicable.</u>			
• <u>Scope Limitation, if applicable.</u>			
• <u>Opinion.</u>			
bc. state that the system of quality control for the accounting and auditing practice of the firm was reviewed and includes the year-end covered by the peer review?		<input type="checkbox"/>	<input type="checkbox"/>
ed. state that the review was conducted in accordance with the <i>Standards for Performing and Reporting on Peer Reviews</i> established by the Peer Review Board of the AICPA?		<input type="checkbox"/>	<input type="checkbox"/>
e. <u>state that a summary of the nature, objectives, scope, limitations of, and procedures performed in a System Review as described in the Standards can be found on the AICPA website where the Standards are summarized.</u>		<input type="checkbox"/>	<input type="checkbox"/>
f. <u>state that the summary includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating</u>		<input type="checkbox"/>	<input type="checkbox"/>
dg. state that the firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects <u>and for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity</u>		<input type="checkbox"/>	<input type="checkbox"/>

<sup>fn 1</sup> All “no” answers should be resolved before the report is finalized.



with professional standards, where appropriate, and for remediating weaknesses in its system of quality control, if any?

- |            |   |                          |                          |
|------------|---|--------------------------|--------------------------|
| <i>eh.</i> | 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?   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>f.</i>  | <del>state that the nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards?</del>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>g.</i>  | <del>include a URL reference to the AICPA Web site where the standards are located?</del>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>hi.</i> | <u>identify engagement types required to be selected and indicate whether single or multiple engagements (for example, an audit versus audits) were reviewed, when applicable?</u><br><del>identify engagement types required to be selected by the Peer Review Board, in Interpretation No. 63-1, of paragraph .63 in section 1000 (sec. 2000 question 63-1), when applicable?</del>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>i.</i>  | <u>State that reviews by regulatory entities as communicated by the firm, if applicable, were considered in determining the nature and extent of procedures</u>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>k.</i>  | <u>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</u> | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>il.</i> | identify the different peer review ratings that the firm could receive?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.         | In a report with a peer review rating of <i>pass</i> , are all applicable elements included? Does the report  | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>a.</i>  | express an opinion that the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year-ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects?  | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>b.</i>  | <del>state at the end of the opinion paragraph that “therefore, the firm has received a peer review rating of <i>pass</i>”?</del>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>e.</i>  | <del>in the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagements(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 engagements excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review?</del>  | <input type="checkbox"/> | <input type="checkbox"/> |



- |            |  |                          |                          |
|------------|--|--------------------------|--------------------------|
| <i>dc.</i> | exclude findings, deficiencies, <u>and</u> significant deficiencies, <u>and recommendations</u> ?  | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.         | In a report with a peer review rating of <i>pass with deficiencies</i> , are all applicable elements included? Does the report   | <input type="checkbox"/> | <input type="checkbox"/> |
| a.         | express an opinion that, except for the deficiencies described in the preceding, 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?  | <input type="checkbox"/> | <input type="checkbox"/> |
| b.         | state <del>at the end of the opinion paragraph that “therefore,</del> the firm has received a peer review rating of <i>pass with deficiencies</i> ”?   | <input type="checkbox"/> | <input type="checkbox"/> |
| c.         | include systemically written descriptions of the deficiencies <u>and the reviewing firm’s recommendations</u> , each of which should be numbered <u>and include reference to the applicable requirement of Statements on Quality Control Standards, the scenario that led to the deficiency or significant deficiency, and reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable</u> (also see <u>appendix B, Checklist for Reviewing Drafts of Deficiencies and Significant Deficiencies</u> )? | <input type="checkbox"/> | <input type="checkbox"/> |
| d.         | include a caption before the deficiencies that says “we noted the following deficiencies during our review:”?  | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>de.</i> | <del>in the event of a scope limitation, include an additional paragraph before the deficiencies that describes the relationship of the excluded engagements(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 engagements excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review?</del>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>fe.</i> | identify any deficiencies that were also made in the report in the firm’s previous peer review ?   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>gf.</i> | identify the level of service for any deficiencies? <del>If the deficiency was industry specific, does the report identify the industry?</del>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>g.</i>  | <u>identify the applicable industry if the deficiency is industry specific</u>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <i>h.</i>  | <u>identify must select industries and practice areas in which nonconforming engagements were noted as a result of a deficiency</u>  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4.         | In a report with a peer review rating of <i>fail</i> , are all applicable elements included? Does the report   | <input type="checkbox"/> | <input type="checkbox"/> |
| a.         | express an opinion that as a result of the significant deficiencies described in the preceding, 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  | <input type="checkbox"/> | <input type="checkbox"/> |

- of performing and reporting in conformity with applicable professional standards in all material respects?
- b. state ~~at the end of the opinion paragraph that therefore~~ the firm has received a peer review rating of *fail*?
- c. include systemically written descriptions of the significant deficiencies ~~and the reviewing firm's recommendations~~, each of which should be numbered and include reference to the applicable requirement of Statements on Quality Control Standards, the scenario that led to the deficiency or significant deficiency, and reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable (also see [appendix B](#))?
- d. include a caption before the significant deficiencies that says “we noted the following significant deficiencies during our review:”?
- ~~e. in the event of a scope limitation, include an additional paragraph before the significant deficiencies that describes the relationship of the excluded engagements(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 engagements excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review?~~
- ~~f. identify any deficiencies or significant deficiencies that were also made in the report in the firm's previous peer review?~~
- ~~g. identify the level of service for any significant deficiencies? If the significant deficiency was industry specific, does the report identify the industry?~~
- ~~g. identify the applicable industry if the deficiency is industry specific~~
- ~~h. identify must select industries and practice areas in which nonconforming engagements were noted as a result of a deficiency~~
5. Is the report dated the same as the exit conference date?
6. Is the report issued on the letterhead of the team captain's firm and signed in the team captain's firm name?
7. Does the report use the correct terminology such as “we have reviewed”—even if the review team consists of only one person unless the team captain is a sole practitioner, in which case—”I have reviewed” is appropriate?

## Appendix B

### Checklist for Reviewing Drafts of Deficiencies and Significant Deficiencies in System Review Reports

	NA	Yes	No <sup>fn</sup> <sub>1</sub>
1. Are deficiencies written systematically, including, but not limited to, what the <del>underlying systemic</del> cause of the deficiency is?		<input type="checkbox"/>	<input type="checkbox"/>
<del>2. Does the description include: reference to the applicable requirement of Statements on Quality Control Standards, the scenario that led to the deficiency or significant deficiency, and reference to non-conforming engagements as a result of the deficiency or significant deficiency, if applicable</del>		<input type="checkbox"/>	<input type="checkbox"/>
2. Have the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific <u>or related to nonconforming must select engagements</u> been identified?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are deficiencies with a common <u>underlying systemic</u> cause (based on design or noncompliance) included in a single deficiency (not grouping issues with different <u>underlying systemic</u> causes into a single deficiency)?		<input type="checkbox"/>	<input type="checkbox"/>
4. Are general terms used to indicate frequency of occurrence rather than specific number?		<input type="checkbox"/>	<input type="checkbox"/>
5. Do the deficiencies avoid identifying, by name or otherwise, specific engagements, individuals, or offices?		<input type="checkbox"/>	<input type="checkbox"/>
6. Are deficiencies written in a specific enough manner so that it will not automatically be identified as a repeat on the next review?		<input type="checkbox"/>	<input type="checkbox"/>
7. Have personal preferences been excluded from the deficiency?		<input type="checkbox"/>	<input type="checkbox"/>
8. Are the deficiencies free of identifying references to specific technical standards, unless it is critical to the understanding of the deficiency, in which case then the deficiency should be written in a sufficient and succinct manner describing the technical standards in the proper context. Otherwise, the use of the general term <i>professional standards</i> should be used?		<input type="checkbox"/>	<input type="checkbox"/>
9. Have any third-party practice aids been referred to in general terms?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Are the deficiencies free from using undefined acronyms such as GAAP, GAAS, CPE, or FASB?		<input type="checkbox"/>	<input type="checkbox"/>
<del>11. Has the “loop been closed” where engagements have been identified as not being performed in accordance with professional standards in all material respects?</del>		<input type="checkbox"/>	<input type="checkbox"/>
12. Are current deficiencies that were also identified on the previous peer review(s), whether in the report or FFC, noted as such by stating “this deficiency was noted in the firm’s previous peer review(s)”?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<del>13. Are recommendations that follow the deficiencies and significant deficiencies very specific, related to the underlying cause, and not a</del>		<input type="checkbox"/>	<input type="checkbox"/>

<sup>fn 1</sup> All “no” answers should be resolved before the report is finalized.

reiteration of the deficiency or significant deficiency? Recommendations may exceed what is required by professional standards, but if such a recommendation is being made, it should indicate so.

## Appendix C

### Index for System Review Working Papers

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<i>Ref.</i>	<i>Section Description</i>	<i>“X” Where Applicable</i>
A	Peer Review Report, and Letter of Response (if applicable) <sup>fn 1</sup>	<input type="checkbox"/>
B	Findings for Further Consideration Forms <sup>fn 2</sup>	<input type="checkbox"/>
C	Prior Review Report <del>and</del> , Letter of Response, <u>FFC Forms, and Firm Representation Letter</u>	<input type="checkbox"/>
D	<i>Team Captain Checklist</i>	<input type="checkbox"/>
E	<i>Summary Review Memorandum</i> <sup>fn 3</sup>	<input type="checkbox"/>
F	Firm Representation Letter <sup>fn 4</sup>	<input type="checkbox"/>
PLANNING		
G	Engagement Letter	<input type="checkbox"/>
H	Firm Background Information	<input type="checkbox"/>
I	Firm Quality Control Document	<input type="checkbox"/>
<del>J</del>	<del>Quality Control Policies and Procedures Questionnaire</del>	<input type="checkbox"/>
<del>K</del> J	Planning Memorandums	<input type="checkbox"/>
<del>L</del> K	Preliminary Selection of Engagements	<input type="checkbox"/>

<sup>fn 1</sup> Documents that are required to be submitted to administering entity.

<sup>fn 2</sup> See [footnote 1](#) to appendix C.

<sup>fn 3</sup> See [footnote 1](#) to appendix C.

<sup>fn 4</sup> See [footnote 1](#) to appendix C.

<i>Ref.</i>	<i>Section Description</i>	<i>“X” Where Applicable</i>
<del>ML</del>	Other Planning Materials	<input type="checkbox"/>
PERFORMANCE		
<del>NM</del>	<i>Guidelines for Review of Quality Control Policies and Procedures</i>	<input type="checkbox"/>
<del>N</del>	<i>Guidelines for Testing of Quality Control Policies and Procedures</i>	<input type="checkbox"/>
O	Interview Questionnaires (Staff Interview, <del>or</del> Focus Group, <del>Managing Partner, or CEO</del> )	<input type="checkbox"/>
P	Engagement Questionnaires	<input type="checkbox"/>
Q	Matters for Further Considerations Forms <sup>fn 5</sup>	<input type="checkbox"/>
R	Disposition of Matter for Further Consideration Form <sup>fn 6</sup>	<input type="checkbox"/>
S	Other Performance Related Materials	<input type="checkbox"/>
REPORTING		
T	Exit Conference Memorandum and Notes	<input type="checkbox"/>
U	Other Reporting Materials	<input type="checkbox"/>
ADMINISTRATION		
V	Time Summaries	<input type="checkbox"/>
W	Other Miscellaneous Correspondence	<input type="checkbox"/>

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<sup>fn 5</sup> See [footnote 1](#) to appendix C.

<sup>fn 6</sup> See [footnote 1](#) to appendix C.

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**PRP Section 4250*****Guidance for Writing Deficiencies and Significant Deficiencies  
Included in System Review Reports***

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**Notice to Readers**

These examples have been developed by the AICPA Peer Review Board (board) to provide peer reviewers with assistance in writing deficiencies and significant deficiencies. The examples included in this section are for illustrative purposes only and assume that the team captain has already followed the standards, interpretations, and other guidance in determining that findings identified have met the threshold for being a deficiency (to be included in a report with a rating of *pass with deficiencies*) or significant deficiencies (in a report with a rating of *fail*). Actual deficiencies and significant deficiencies should be prepared based on the specific facts and circumstances.

**Guidance for Writing Deficiencies (and Significant Deficiencies) Included in Reports**

.01 The criteria for identifying matters, findings, deficiencies and significant deficiencies for System Reviews are discussed in paragraphs .69–.90 of section 1000. This section assumes that the team captain has already made the determination that a deficiency or significant deficiency exists.

**Points to Consider When Writing Deficiencies to be Included in a Report with a Rating of *Pass with Deficiencies* or *Fail***

- .02 On a System Review, the deficiencies in the report should be written with a systemic orientation and include
- a. what the firm’s policies and procedures include or exclude (what the system is designed to do or not designed to do), and the particular reference to the applicable requirement of Statements on Quality Control Standards. The deficiency in the report articulates that the firm’s system of quality control is not designed in accordance with professional standards or if designed appropriately, the firm’s failure to comply with or document its compliance with an appropriately designed system.
  - b. the systemic cause of the deficiency. What happened (design failure or pervasive compliance issues) that caused the deficiency? This is often the most difficult area to identify when writing a deficiency, and should be determined in collaboration with the firm. It is extremely important to identify the systemic cause and not just the firm’s failure to comply with professional standards in all material respects. This is ultimately what the firm will need to change (the design of its system of

quality control or how the firm complies with an appropriately designed system) in order for the deficiency not to recur.

- c. the failure to comply with professional standards in all material respects (nonconforming) as a result of the deficiency or significant deficiency, if applicable.
- d. an identification of the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific.
- e. an identification of must select industries and practice areas in which nonconforming engagements were noted as a result of a deficiency or significant deficiency (such as the failure to document several procedures performed on Employee Retirement Income Security Act [ERISA] audits).
- f. grouping issues with the same systemic cause that meet the threshold of a deficiency, into a single deficiency.
- g. using the term *significant deficiencies* as a caption before all of the identified deficiencies only when a report with a peer review rating of *fail* is issued.
- h. if any of the current deficiencies or significant deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, in either case, that fact should be identified by stating, "this deficiency was noted in the firm's previous peer review."

**.03** On a System Review, deficiencies should avoid

- a. including personal preferences. Deficiencies should be based on professional standards and the firm's design of and its compliance with its system of quality control. Reviewers are occasionally surprised to find that some generally accepted professional standards are, in reality, only a preferred treatment by their firm.
- b. referencing specific individuals, offices, or third-party practice aids.
- c. using undefined acronyms such as GAAP, GAAS, CPE or FASB.
- d. identifying the exact number or frequency of occurrence. Terms such as *in some instances* or *frequently* should be used.
- e. identifying references to specific technical standards, unless it is critical to the understanding of the deficiency and in relation to the Statements on Quality Control Standards, in which case then the deficiency should be written in a sufficient and succinct manner describing the technical standards in the proper context. Otherwise, the use of the general term *professional standards* should be used.
- f. grouping unrelated issues (different systemic causes) into a single deficiency.



- g. including poor firm administration or engagement inefficiencies that ordinarily do not create a condition in where there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements in all material respects.
- h. using titles preceding the deficiency that include *design deficiency* or *compliance deficiency* or the applicable functional element of quality control.

## **Other Considerations**

### ***Design Deficiencies***

- .04** A design deficiency exists when the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, could create a situation in which the firm would have less than reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with.
- .05** The team captain should follow the standards, interpretations, and other guidance in determining whether matters and findings identified have met the threshold for being a design deficiency (to be included in a report with a rating of *pass with deficiencies*) or a significant deficiency (in a report with a rating of *fail*). Deficiencies and significant deficiencies should be based on the specific facts and circumstances.

### ***Compliance Deficiencies***

- .06** A compliance deficiency exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Because a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- .07** The team captain should follow the standards, interpretations, and other guidance in determining whether matters or findings identified have met the threshold for being a compliance deficiency (to be included in a report with a rating of *pass with deficiencies*)

or a significant deficiency (in a report with a rating of *fail*). Deficiencies and significant deficiencies should be based on the specific facts and circumstances.

### **Guidance for Determining Whether a Current Deficiency Was Noted in Connection With a Prior Peer Review**

**.08** When determining whether to identify that a current deficiency was noted in the previous peer review or peer reviews, the focus is the system of quality control weakness (that is, the systemic cause) noted in either the current report (deficiency or significant deficiency) and either the report or the FFCs in connection with the reviewed firm's prior review. The team captain should read the prior report and FFCs and letter of response, if applicable, and evaluate whether the actions outlined in the response have been implemented to determine whether the systemic cause is the same. The deficiency or significant deficiency should note that "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous review." If the actions have been implemented and the same engagement deficiencies are occurring (such as incomplete or omitted disclosure deficiencies), the team captain, in collaboration with the firm, should determine the weakness in the firm's system of quality control that could be causing the engagement deficiencies to continue to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm's system of quality control. If the systemic cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

#### ***Example 1:***

#### **.09 Results of Prior Review**

The following comment and response were included on a FFC on a firm's prior review:

*Comment*—The firm's quality control policies and procedures require the firm to complete a disclosure checklist on all engagements. Our review discovered that these checklists were not completed on all engagements. Disclosure deficiencies were noted in related party transactions and lease commitments. None of these omitted or incomplete disclosures were considered significant departures from professional standards.

*Response*—The firm has reemphasized its policies regarding the completion of a comprehensive disclosure checklist on all accounting and auditing engagements. These checklists will be completed by a member of the engagement team, reviewed by the engagement partner, and retained with the engagement working papers.

#### **Results on Current Review**

In the performance of the current year's review, the team captain noted the firm personnel are completing a disclosure checklist on all accounting and auditing engagements. However, some very material disclosure deficiencies are still noted regarding share-based payment arrangements and accounting changes and error corrections.

## Comparison of Prior Peer Review and Current Engagement Deficiencies

In this example, the firm reinforced its policy on the use of a disclosure checklist in its FFC response on the previous review. Therefore, the team captain must look for other weaknesses in the firm's system of quality control related to the disclosure deficiencies.

The team captain noted that both share-based payment arrangements and accounting changes and error corrections were covered by recently issued or revised professional standards and that share-based payment arrangements was a complex area that often requires special training. Upon further investigation, the team captain also found that firm personnel have taken the CPE required by the state board of accountancy and the AICPA, but engagement partners had little or no recent CPE on current developments in accounting and auditing. Therefore, the team captain concluded the systemic cause of the disclosure deficiencies is a weakness in the firm's professional development (Human Resources) policies because those policies do not require that sufficient courses be taken on new accounting pronouncements and on specialized areas. Because this was not noted in the prior review, the deficiency in the current review would not be identified as being noted on the previous peer review.

### Example 2:

#### .10 Results of Prior Review

The following comment and response were included in the FFC on a firm's prior review:

*Comment*—The firm's quality control policies and procedures require consultation in situations that involve complex subject matters or newly issued technical pronouncements. During our review, we noted several instances where the firm researched the issues encountered, but failed to consult with the individual designated in the quality control document. The firm issued several reports for a governmental entity that did not include all required language to comply with professional standards. The reporting deficiencies were not of such significance to make the auditor's reports misleading.

*Response*—In a meeting held on October 15, 20XX, we reviewed our policies regarding consultation with all of our accounting and auditing staff and encouraged the staff to consult with or use authoritative sources on complex or unusual matters as specified by firm policy.

#### Results on Current Review

In the performance of the current year's review, the review team confirmed that the meeting of October 15, 20XX took place and that the firm's consultation policies were reviewed at that meeting. However, the review team also found that issues requiring consultation, such as accounting for derivatives and asset retirement obligations, were not presented or disclosed appropriately.

## Comparison of Prior Peer Review and Current Deficiencies

Upon further research, the team captain discovered that the staff members researched these issues internally, but failed to consult with the partner designated as the consultant for these complex issues as required under the firm's system of quality control. Because the current deficiencies are caused by the same weakness in the firm's system of quality control noted in the prior review (and the team captain determined on the current review that the findings met the threshold for inclusion as deficiencies in a peer review report with a rating of *pass with deficiencies*), this deficiency would be identified as being noted in the previous peer review.

## **Examples of Deficiencies That Might Be Included in the System Review Report**

### **Leadership Responsibilities for Quality within the Firm (“Tone at the Top”)**

- .11 The firm should promote an internal culture based on the recognition that quality is essential in performing engagements and should establish policies and procedures to support that culture. Such policies and procedures should require the firm's leadership to assume ultimate responsibility for the firm's system of quality control.

#### ***Illustrative Examples***

- .12 **Deficiency**—The firm's quality control policies and procedures in reference to leadership responsibilities for quality within the firm are not sufficient to provide reasonable assurance that the engagements are performed in accordance with professional standards. The firm's quality control policies and procedures do not require the promotion of a quality oriented internal structure via clear, consistent, and frequent actions and messages from all levels of the firm's management. During our review, we noted the reports on firm's audits were issued prior to the completion of all required audit procedures, in an effort to meet tight deadlines. In our opinion, this contributed to audit engagements that did not conform to professional standards in all material respects or support the issuance of the audit reports in the circumstances.
- .13 **Deficiency**—The firm's system of quality control has not been designed to ensure commercial considerations do not override the quality of work performed, which is not compliant with the Statement of Quality Control Standards leadership responsibilities. During the firm's monitoring procedures an engagement was identified as non-conforming, no action was taken, and there was no documentation of the firm's evaluation of remediation; including the reasoning for not recalling and reissuing the reports, not notifying the client nor consulting with legal counsel. During our review, it was determined the firm did not take action due to the business implications of such actions. In our opinion, this contributed to audit engagements that do not conform to professional standards in all material respects.
- .14 **Deficiency**—The firm's quality control policies and procedures have not been suitably designed to provide reasonable assurance of promoting a culture of quality required from all firm leadership. The firm's quality control policies and procedures require that a partner with sufficient and appropriate experience and the requisite authority to

implement those policies and procedures, be assigned the operational responsibility for the firm's system of quality control. However, the firm's leadership assigned this role to its tax partner who has no current or past responsibilities for accounting and auditing engagements nor experience with related systems of quality control. During our review, we noted that the firm's system of quality control does not contain all of the elements and other matters essential to the effective design, implementation, and maintenance of the system. In our opinion, this contributed to work performed on a few engagements, specifically documentation, that did not conform to professional standards in all material respects or support the issuance of the audit reports in the circumstances.

- .15 Deficiency**—The firm's system of quality control has not been suitably designed such that the policies and procedures that address performance evaluation, compensation, and advancement with regard to its personnel in order to demonstrate the firm's overarching commitment to quality. More specifically, feedback received from staff indicated pressure from leadership to come in under budget on engagements. In our opinion, this could contribute to audit engagements that do not conform to professional standards in all material respects.

#### **Relevant Ethical Requirements (Previously Independence, Integrity, and Objectivity)**

- .16** The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The *AICPA Code of Professional Conduct* establishes the fundamental principles of professional ethics, which include responsibilities, the public interest, integrity, objectivity and independence, due care, scope, and nature of services.

#### ***Illustrative Examples***

- .17 Deficiency**—The firm's quality control policies and procedures regarding relevant ethical requirements are not designed to provide reasonable assurance that the engagements are performed in accordance with professional standards. The firm's quality control policies and procedures do not require that personnel be informed of all new accounting and auditing clients or engagements on a timely basis, which is not in accordance with the relevant ethical requirement of independence within the Statements on Quality Control Standards. During our review, we noted independence was impaired on an accounting engagement. Consequently, the engagement was identified as non-conforming as the firm should not have performed the engagement due to familial relations that impede independence.
- .18 Deficiency**— The firm's quality control policies and procedures do not provide reasonable assurance that the firm will comply with relevant ethical requirements. The firm's quality control policies and procedures require that written independence representations be obtained annually from all partners and personnel and then be reviewed by a partner in the firm assigned overall responsibility for such matters. During our review, we noted that this partner left the firm in the early part of the year and his related responsibilities in

this area had not been reassigned. In our opinion, this contributed to several of the firm's personnel failing to sign such a representation. Written independence representations were subsequently obtained but there were instances where the firm was not independent with respect to the financial statements on which it reported, which caused the engagements to not conform to professional standards in all material respects.

### **Acceptance and Continuance of Client Relationships and Specific Engagements**

- .19** The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements. These policies and procedures should be designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only where the firm (1) has considered the integrity of the client, including the identity and business reputation of the client's principal owners, key management and related parties, and those charged with its governance, and the risks associated with providing professional services in the particular circumstances; (2) is competent to perform the engagement and has the capabilities and resources to do so; and (3) can comply with legal and ethical requirements.

#### ***Illustrative Examples***

- .20 Deficiency**—The firm's quality control policies and procedures regarding acceptance and continuance of clients are not designed to provide reasonable assurance that the firm will undertake engagements in which the firm's personnel have the capabilities and resources to complete in accordance with professional standards. The firm's quality control policies and procedures do not require the firm to evaluate whether to perform a specific engagement for an existing client, specifically if the level of service previously provided is changed. During our review, we noted instances where the firm had previously reported on compiled financial statements of a client and the current engagement included reporting on audited financial statements. The firm had no previous experience in conducting audits in the construction industry and during our review we noted, that they failed to appropriately test construction-in-progress. In our opinion, this contributed to audit engagements in the construction industry that did not conform to professional standards in all material respects.

- .21 Deficiency**—The firm's quality control policies and procedures specify criteria that should be considered when making client continuance decisions and require that such decisions be documented, which is in accordance with Statements on Quality Control Standards. During our review, we were unable to determine whether client continuance decisions had been made in accordance with the firm's policies. Furthermore, we noted instances where the firm accepted engagements in a specialized industry although it had no experience or expertise in that industry, it did not update its library to include reference materials related to that area of practice, nor did the firm consult with qualified individuals outside of the firm. In our opinion, this contributed to certain industry specific audit procedures not being performed on the audit of an employee benefit plan subject to ERISA, thus deeming the engagement non-conforming.

## Human Resources (Previously Personnel Management)

.22 The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles to (1) perform its engagements in accordance with professional standards and regulatory requirements and (2) enable the firm to issue reports that are appropriate in the circumstances. Such policies and procedures should address (a) recruitment and hiring, if applicable; (b) determining capabilities and competencies; (c) assigning personnel to engagements, if applicable; (d) professional development; and (e) performance evaluation, compensation, and advancement.

### *Illustrative Examples*

.23 **Deficiency**—The firm’s quality control policies and procedures addressing the human resources component of engagement assignments are not designed to provide the firm with reasonable assurance that the engagements are being performed in accordance with professional standards and regulatory requirements. The firm’s quality control policies and procedures do not require the practitioner in charge of an engagement to have certain knowledge, skills, and abilities (competencies) necessary to fulfill their engagement responsibilities, including knowledge of the industry in which the client operates and an understanding of the professional standards related to that industry. During our review, we noted a few engagements where industry related disclosures were not included in the financial statements of the entity. This included audits of not-for-profit organizations subject to *Government Auditing Standards*. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

.24 **Deficiency**—The firm’s quality control policies and procedures are not designed to provide reasonable assurance that the engagement team has the requisite knowledge to perform engagements in accordance with professional standards. The firm’s quality control policies and procedures do not require personnel to obtain CPE covering accounting and auditing topics directly related to their assignments, and such policies and procedures also do not ensure that personnel assigned to engagements will have the degree of technical training and proficiency required in the circumstances. Our review disclosed that the firm’s personnel complied with the CPE requirements of the state board of accountancy, but that insufficient courses had been taken covering auditing topics and none had been taken during the past three years covering the specialized industry in which many of the firm’s audit clients operate. Consequently, we noted the firm’s audit of employee benefit plans subject to ERISA did not include adequate testing of participant data. In our opinion, the lack of CPE in the aforementioned specialized industry contributed to audit engagements that did not conform to professional standards in all material respects.

## Engagement Performance



.25 The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are consistently performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances. Required policies and procedures should address engagement performance, supervision responsibilities, and review responsibilities.

### *Illustrative Examples*

.26 **Deficiency**—The firm’s quality control policies and procedures are not designed to provide reasonable assurance that engagements are consistently performed in accordance with professional standards and regulatory and legal requirements. The firm requires that its non-industry specific audit program be used on all audit engagements. However, the firm does not require that this program be tailored to cover the requirements of specialized industries, when necessary. During our review, we noted there was no evidence that the auditor reviewed and evaluated the type 2 SOC 1 report which they relied upon in the firm’s audit of an employee benefit plan. In our opinion, this contributed to audits of employee benefit plans subject to ERISA that did not conform to professional standards in all material respects.

.27 **Deficiency**—The firm’s quality control policies and procedures addressing engagement performance are not complied with on a routine basis. The firm’s quality control policies and procedures require use of standard audit programs that remind the firm to perform required compliance testing of internal controls, in accordance with professional standards. During our review, we noted instances where required compliance testing of internal accounting controls were not performed. Although the firm has represented that the testing occurred, we were unable to find any evidence to support the firm’s representation that compliance testing was performed, as required by professional standards. In our opinion, this contributed to audit engagements that did not conform to professional standards in all material respects.

.28 **Deficiency**—The firm’s quality control policies and procedures over engagement performance are not designed to provide reasonable assurance that engagements are consistently performed in accordance with professional standards. The firm’s quality control policies and procedures do not specifically identify the criteria for which engagements should be subject to an engagement quality control review, nor the criteria for the eligibility of engagement quality control reviewers. During our review, we noted audits were performed for clients in high risk industries that were not subject to engagement quality control review. In our opinion, this contributed to audit engagements that did not conform to professional standards in all material respects.

### **Monitoring**

.29 The firm should establish policies and procedures designed to provide the firm and its engagement partners with reasonable assurance that the policies and procedures relating

to the system of quality control are relevant, adequate, operating effectively, and complied with in practice. Monitoring is an ongoing consideration and evaluation process.

### ***Illustrative Examples***

**.30 Deficiency**—The firm’s quality control policies and procedures related to its monitoring function are not designed to provide reasonable assurance that the engagements are consistently performed in accordance with professional standards. The firm’s policies and procedures do not require the performance of monitoring procedures that are sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and regulatory requirements. During our review, we noted that the partners were unaware of several new professional standards issued during the year and the firm failed to register in a neighboring state where it provided accounting and auditing services, as required by the neighboring state’s board. In our opinion, had the firm’s monitoring procedures been adequately designed, these deficiencies, which are discussed further in other deficiencies included in the peer review report, would have been detected and corrected timely.

**.31 Deficiency**—The firm’s quality control policies and procedures addressing the firm’s monitoring function have not been complied with to provide reasonable assurance that the engagements are being performed in accordance with professional standards. The firm’s quality control policies and procedures require that the firm’s post-issuance review procedures be sufficiently comprehensive to enable the firm to assess conformity with all applicable professional standards and the firm’s compliance with quality control policies and procedures. However, the nature and extent of the deficiencies outlined in this report demonstrate the post-issuance review procedures were ineffective in monitoring the firm’s adherence to its quality control policies and procedures. In our opinion, the ineffective post-issuance review procedures prevented the firm from achieving the objectives of monitoring procedures and contributed to audit engagements of broker-dealers and not for profit entities that did not conform to professional standards in all material respects.

## **Appendix A**

### **Case Studies on Writing Deficiencies on System Reviews**

**.32** Reviewers are often asked to revise reports because they describe deficiencies without identifying the weaknesses in the firm’s system of quality control (the systemic cause). If the reviewer does not understand the systemic cause, he or she cannot assist the firm in identifying actions taken or planned that will reduce the likelihood of the deficiencies recurring.

Because similar deficiencies (noncompliance with professional standards for the purposes of this case study) may be caused by completely different systemic weaknesses, reviewers should make sure deficiencies are based on careful thought and discussions

with the partners of the firm about their systemic cause(s). To determine the systemic cause(s) of deficiencies, a reviewer sometimes needs to expand testing in an area. This expanded testing will also allow the reviewer to determine whether a deficiency is isolated or pervasive.

In evaluating deficiencies, the review team should consider all aspects of a firm's system of quality control and try to determine the systemic cause(s). In some cases, the systemic cause(s) of certain deficiencies from a quality control perspective may not be clear and may appear to be the result of a combination of factors. When the most likely systemic cause(s) of the deficiencies cannot be readily identified, the review team should hold further discussions with the partners of the reviewed firm. Together, the reviewed firm and the review team will be able to identify the systemic cause(s) of the deficiencies and develop a plan for reducing the likelihood of their recurrence.

The following case studies are designed to provide review teams with illustrations of the process of searching for the systemic cause(s) of deficiencies.

### **Case Study One**

*Facts about the Reviewed Firm:* ABC, P.C. is a CPA firm with two partners, one manager, and four other personnel. The manager has six years of experience and the other four personnel have from six months to two years of experience.

*Prior Peer Review:* On the firm's previous review, it received a pass report with an FFC citing a failure to comply with the firm's policies and procedures for documenting analytical review procedures and the engagement team's assessment of risk and materiality considerations. It was determined that the systemic cause was the engagement partner's failure to review the checklists and planning documentation prior to the issuance of the reports, as required by firm policy. The reviewed firm's response to the review team appeared to address the engagement performance issues adequately and seemed comprehensive and feasible in the circumstances.

*Current Peer Review Matters Identified:* In addition to several general audits, the firm performed two audit engagements which were subject to *Government Auditing Standards, Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations*. The Team Captain reviewed one general audit and did not identify any matters on that engagement. Additionally, as required, one engagement subject to the aforementioned standards was included in the scope of the review (ultimately the scope was expanded to the second audit). The review team noted the following on those audits:

1. A third party developed audit program for governmental engagements was included in the work papers, but the audit procedures were not signed off or dated by engagement personnel at the completion of the procedures.
2. The firm issued a "clean" report on internal control over financial reporting and on compliance and other matters based on an audit performed in accordance with *Government Auditing Standards* (no

significant deficiencies or instances of noncompliance), but did not issue a report on compliance with requirements applicable to each major program and on internal control over compliance, as required by the Uniform Guidance.

3. The firm issued a “management letter” that was not referred to in the report on internal control over financial reporting, and on compliance it included a statement that “no significant deficiencies were found” during the performance of the audit.

During the discussions of the previously stated matters with the manager on the engagements, the review team learned the following:

1. The firm borrowed a governmental audit program from another CPA firm in the same building, because these were the only two engagements the reviewed firm performed, subject to *Government Auditing Standards*.
2. The non-qualifying expenditures were \$500 political contributions to candidates running for local office. Because partners of the CPA firm served as treasurers of the respective candidate’s political campaign, the manager decided the contributions did not need to be mentioned in a report.
3. The manager did not inquire about a drug free workplace policy because the nature of the entities and the program made it unlikely that drugs would be “a problem.”

*Current Peer Review System Issues:* The manager agreed the content of the reports issued were incorrect or improper and that one required report had not been issued on each engagement. He further indicated the engagement partner had pressured him into completing the engagements before the partner left on vacation. After being advised of this, the review team further explored the systemic causes of the engagement issues with the firm’s owners. During this process, they learned one or more of the following:

1. The engagement partners had no prior government auditing experience, nor did they identify a specialist as a resource in the evaluation process.
2. Because these were the only two engagements performed by the firm under *Government Auditing Standards*, and because the engagement partner was trying to keep the engagement costs to a minimum, only the manager on the engagement had taken any governmental accounting or auditing related CPE, and that training only consisted of a four hour self-study update on *Government Auditing Standards*.
3. Even though the firm’s consultation policies require that an adequate, up-to-date library be maintained, the firm’s library did not contain a copy of the *Government Auditing Standards*, Uniform Guidance, or a third party

auditing practice aid applicable to audits subject to *Government Auditing Standards* and Uniform Guidance.

4. The firm accepted the engagements because one of the partners did not want to lose business opportunities to a competitor at any fee and had indicated at a local chamber of commerce function that the firm performed audits of not-for-profit organizations receiving federal awards.

*Possible Deficiencies Resulting from This Case:* The team captain determined that the threshold was reached for these findings to be considered deficiencies and included a report with a peer review rating of pass with deficiencies. Depending on the conclusions reached concerning the systemic cause of the deficiency, the related deficiency included in the report might be one of the following:

**Deficiency**—The firm’s quality control procedures addressing engagement performance are not being complied with on a consistent basis, and therefore do not provide the firm with reasonable assurance that engagements are consistently performed in accordance with professional standards. The firm’s quality control policies and procedures for consultation require an adequate reference library be maintained as a resource for performing engagements in specialized areas and for researching matters identified on engagements. During our review, we noted that the firm did not have access to *Government Auditing Standards* and related technical materials or practice aids even though it had clients, the audits of which were subject to those standards. More specifically, we noted incorrect reports were issued and required reports were not issued in the audits of other not-for-profit organizations subject to *Government Auditing Standards*. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

**Deficiency**—The firm’s quality control policies and procedures addressing human resources are not designed appropriately to provide it with reasonable assurance that the firm has sufficient personnel with the competence to perform engagements in accordance with professional standards and applicable legal and regulatory requirements. The firm’s quality control policies and procedures require all personnel to comply with applicable state board of accountancy continuing professional education (CPE) requirements. The personnel were in compliance with this policy; and the firm was not yet subject to the CPE requirements of *Government Auditing Standards*, a new practice area for the firm. During our review, we noted individuals assigned to the audits of not-for-profit entities subject to *Government Auditing Standards* insufficiently understood the unique requirements applicable to the engagement. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

**Deficiency**—The firm’s quality control policies and procedures were not complied with in reference to acceptance and continuance of specific engagements. The firm’s quality control policies and procedures require

evaluation of prospective clients for approval prior to acceptance. During our review, we noted the firm accepted engagements subject to *Government Auditing Standards* when it had no experience in that area, its library did not include materials related to such engagements, nor did the firm identify an outside consultant to assist with these standards. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

**Deficiency-** The firm’s quality control policies and procedures were not complied with in reference to leadership responsibilities for quality within the firm. As described in the preceding deficiency, the firm accepted an engagement that was not in compliance with its quality control policies and procedures. The partner whom accepted the engagement allowed commercial considerations to override the quality of work performed. Additionally, the partner pressured the manager to complete the engagement without providing sufficient time. In our opinion, the tone at the top element is not in compliance with the quality standards, and therefore does not provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

***Conclusion:*** Although the team captain must use professional judgment in determining what the systemic cause of a deficiency is, it would appear that the “acceptance” and “tone at the top” examples immediately preceding are the most appropriate in this case. In addition, neither of these the systemic causes of the deficiencies were noted in the previous review so they would not be noted as having occurred in the previous peer review.

## **Case Study Two**

***Facts about the Reviewed Firm:*** XYZ & Associates is a CPA firm with three partners and four personnel. Two of the partners perform primarily tax work, but they also perform engagements involving compilation reports on complete sets of financial statements (“full disclosure compilations”) and compilation reports on financial statements that omit substantially all disclosures required by generally accepted accounting principles or a special purpose framework<sup>fn 1</sup> (“compilations that omit disclosures”). The third partner, who also prepares tax returns and performs compilation engagements, is responsible for all of the firm’s audit and review engagements. Each owner is responsible for reviewing his or her own work.

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

The firm uses practice aids developed by a third party provider and has identified in its quality control policies and procedures those forms and checklists that are required and those that are optional. The firm's accounting and auditing practice consist of 15 audits for 4500 hours, 5 reviews for 250 hours, and 120 compilations for 1500 hours.

*Prior Peer Review:* On the firm's previous review, it received a pass report with an FFC citing the firm's failure to carefully complete disclosure checklists along with appropriate partner review, as required by firm policy. This resulted in incomplete or omitted disclosures on the review and compilation engagements reviewed. (The specific disclosure errors were not identified.)

*Current Peer Review Matters Identified:* The review team noted the following on the engagements reviewed:

1. On two full disclosure compilation engagements selected for review, numerous required disclosures were omitted, including disclosures unique to the construction contractor industry, terms of operating leases, concentrations of credit risk relating to bank balances and trade accounts receivable, interest and income taxes paid when the indirect method was used for the cash flow statement, and noncash financing and investing activities for the cash flow statement. The team captain expanded scope to review disclosures on other compilation engagements and noted similar issues.
2. On one omit disclosure compilation, the team captain noted that the report failed to identify that management had elected to omit substantially all disclosures. The team captain expanded scope to review reports on several other compilation engagements and noted the same failure.
3. On the audit and review engagements selected for review, only a few isolated and minor disclosures were missed.

The compilation engagements were deemed to not have been reported on in accordance with professional standards in all material respects. Based on review of the initial engagements selected, the review team believed further information was needed to identify the systemic cause of the problems, so scope was expanded.

*Current Peer Review System Issues:* Based on a comparison of the original engagements selected for review and the additional engagements selected, the review team determined that the firm had complied with its policies and procedures requiring the completion of financial statement disclosure checklists on all engagements. However, the completed disclosure checklists indicated each of the omitted disclosures was on the checklist (though some were referred to only briefly), yet the partners' responses were inappropriately marked "N/A" or "yes."

Based on the expanded scope and discussions with the partners, the review team was able to determine that the two partners primarily responsible for the tax practice were not reviewing the disclosure checklists carefully. The two partners also admitted they



were not familiar with the disclosure requirements omitted and had not reviewed the disclosure checklists carefully because such review was time consuming. Even though all CPAs in the firm had met their state board of accountancy CPE requirements, the review team noticed that the partners had taken no formal training courses on accounting and auditing topics during the last three years.

*Possible Deficiencies Resulting From This Case:* The review team determined the findings on the current review did rise to the level of a deficiency and, although there were some different contributing factors than in the previous review, inappropriate partner review played a key role in the systemic cause in both peer reviews, and that fact should be noted:

**Deficiency**—The firm's quality control policies and procedures addressing engagement performance have not been suitably designed to provide reasonable assurance that accounting engagements are consistently performed in accordance with professional standards. Although the firm's quality control policies and procedures require all accounting and auditing engagements to be properly supervised and reviewed by partners in the firm, the policy should also identify the appropriate qualifications of the reviewing partner. Our review noted that compilation engagements were reviewed by partners of the firm whose primary practice areas are not financial statement engagements. Also, those individuals did not participate in sufficient CPE courses on accounting subjects during the period. More specifically, the financial statements for these engagements did not include all of the reporting language and disclosures required by professional standards. In our opinion, this contributed to engagements performed that did not conform to professional standards in all material respects. The failure to identify the qualifications of the review partner in the design of engagement performance controls was noted as a deficiency on the firm's previous peer review.

Even if the review team had determined that the partners had participated in a reasonable number of training courses on accounting topics, the review team would probably also have concluded the deficiency was noted in the previous peer review, as the systemic cause was the failure to identify the qualifications of the review partner.

### **Case Study Three**

*Facts about the Reviewed Firm:* HH SC is a CPA firm with three partners and three other personnel with experience ranging from one to five years. Two of the three partners are responsible for one audit each, but all the partners are responsible for compilation and review services. All partners and staff are significantly involved in tax preparation and related services, which is a significant portion of the firm's practice.

*Prior Review:* This is the firm's initial review.

*Current Peer Review Matters Identified:* While performing the review, the review team initially noted performance issues related to the lack of documentation for the following areas of planning on the audit engagement selected for review:

- Consideration of matters affecting the industry
- Preliminary judgment of materiality
- Analytical review procedures
- Internal control structure considerations
- Assessment of risk
- Consideration of fraud risk factors

Although the audit planning program steps were initialed and dated, few work papers existed to support the audit program steps. In addition, documentation of certain other areas of the audit were also lacking and little documentation existed for the partner's review of the work papers prepared by the staff person assigned to the audit.

After discussing the preceding issues with the partner and staff on the engagement, and reviewing the firm's written responses to the Matter for Further Consideration forms detailing the procedures performed by the firm, the review team determined that the firm had given inadequate attention to fraud risk factors, assessment of risk, and internal control structure considerations, however sufficient planning procedures had been performed in the other areas though they were not documented. The review team was also able to conclude that similar issues would be encountered on the other audit performed by the firm.

*Current Peer Review System Issues:* The review team believes the firm's quality control policies and procedures are adequately designed for a firm of its size and that the library is appropriate because it contains, among other things, appropriate auditing and accounting practice aids purchased from a third party provider. When asked by the review team about the reason for the lack of documentation and the inadequate consideration of fraud risk, other risk factors, and internal control considerations, the partner indicated that they had encountered time constraints when completing the audits.

*Possible Deficiency Resulting From This Case:* The review team concluded an engagement performance related deficiency should be included in the report because the partner's review of the engagements was not adequate to identify the performance, including documentation deficiencies:

**Deficiency**—The firm's quality control policies and procedures regarding engagement performance are not complied with on a regular basis, therefore do not provide reasonable assurance that engagements are consistently performed in accordance with professional standards. The firm's quality control policies and

procedures require a partner to review audit work papers, financial statements, and auditors' reports. During our review, we noted that the firm's audit planning work papers do not evidence either adequate considerations or documentation of the firm's preliminary judgment about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests.

The nature of this deficiency would differ if

1. the review team had learned during further discussions with the personnel on the audit engagements that the staff was uncertain about how to perform the procedures outlined in the audit planning program, and the extent and nature of work papers necessary to support the procedures performed; or
2. the firm had provided its partners and personnel with a substantial number of training courses in the tax area during the last three years, but few courses in the accounting area and none in the audit area, and the partners had indicated that training courses in the audit area were not beneficial to the firm because the firm only performs the two audits to fill in during its slower periods.

If these conditions had been encountered, the review team might have determined that a more thorough review of the work papers by the partners would not necessarily have found the deficiencies or the need for additional audit planning documentation. As a result, the review team might have decided the report should contain a deficiency related to the design of the firm's system of quality control as follows:

***Deficiency***—The firm's quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence to perform engagements in accordance with professional and regulatory requirements. The firm's quality control policies and procedures require all personnel to participate in 40 hours of CPE each year. Even though the firm's personnel met these requirements, the courses taken did not provide the firm's personnel with sufficient information about auditing pronouncements and related procedures. In our opinion, this led to firm personnel on the audit engagements reviewed, not including sufficient evidence of either adequate considerations or documentation of the firm's preliminary judgments about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests.

## Appendix B

### Reporting Considerations for Tone at the Top

The relative importance of design matters noted in the reviewed firm's quality control policies and procedures, individually and in the aggregate, need to be evaluated in

the context of the firm's size, organizational structure, and the nature of its practice. The reviewer should consider whether the weakness should be a finding, deficiency, or significant deficiency. Tone at the top weaknesses should be evaluated by their systemic impact on the system of quality control taken as a whole. If a weakness creates a condition in which the firm's design of or compliance with its system of quality control would provide the firm with less than reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects, then a deficiency would exist. A significant deficiency would be appropriate if the weakness is of such importance that the system of quality control would not provide the firm with reasonable assurance of performing or reporting in conformity with professional standards in all material respects, including scenarios where the peer review did not identify any non-conforming engagements.

### ***Examples of Tone at the Top Deficiencies***

#### **Example 1**

*Scenario* - Firm A performed a total of 15 A&A engagements during the peer review year including 10 audits and 5 compilations without disclosures. During planning for the system review, the team captain notes that the firm has properly documented its system of quality control in accordance with SQCS No. 8 and that the system appears to be appropriately designed. However, during the review of engagements, he identifies numerous instances of nonconformity with GAAS and concludes that all four of the audits selected for peer review were not performed or reported on in conformity with applicable professional standards in all material respects.

While discussing "no" answers with engagement teams, the team captain becomes concerned that the tone being set by the firm's leadership with respect to GAAS compliance is excessively lax. He presents this concern to the firm's managing partner who responds, "We beat up the balance sheet on every job so there is no chance we would miss a material misstatement. We just don't spend time performing and documenting risk assessments." The firm ultimately agreed to perform additional procedures to support the report.

The firm's quality control policies and procedures over tone at the top require the managing partner to accept ultimate responsibility for the firm's system of quality control and for setting a tone that emphasizes the importance of quality. The team captain determines the managing partner's statement and the results of his engagement team discussions evidence noncompliance with the firm's policy regarding tone at the top.

In this scenario, nonconforming engagements were identified and the managing partner has indicated that the firm does not follow applicable professional standards. Based upon this fact pattern, the managing partner's noncompliance with the firm's policies over tone at the top creates a situation in which the firm's system of quality control, taken as a whole, provides the firm with less than reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. A deficiency related to tone at the top would appear appropriate. The peer review report

includes the following deficiency:

*Deficiency* – The firm’s quality control policies and procedures are not designed to require the promotion of a quality oriented structure via clear, consistent, and frequent actions and messages from the firm owner. During our review, we noted, in order to meet deadlines, audit reports were issued prior to the completion of required audit procedures. In our opinion, this contributed to audit engagements performed that did not conform to professional standards in all material respects.

*Firm’s Letter of Response (LOR)* – The firm noted the following in its LOR:

- The firm is committed to providing clear, consistent, and frequent actions and messages from all levels of the firm’s management to emphasize the firm’s commitment to quality.
- We will perform additional procedures to support the reports of the nonconforming engagements.
- The firm’s system of quality control was modified to include CPE course specific tracking within the human resources function. The firm will require all A&A staff to attend the AICPA’s Annual Accounting and Auditing Workshop to refresh the knowledge of all staff of the required procedures under GAAS.
- The firm’s system of quality control was modified to include monitoring procedures to provide it with reasonable assurance that the firm’s policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. Specifically, we will hire a QC Director to establish procedures for maintaining and monitoring adherence to the policies and procedures set by our system of quality control.

*Note: The firm should also indicate when these actions will be taken.*

*Corrective Actions* – After consideration of the deficiencies and the firm’s LOR, the administering entity’s Report Acceptance Body (RAB) required the following corrective actions in addition to or as an affirmation of those described by the reviewed firm in its LOR:

- Require the firm to hire an outside party acceptable to the RAB to review the firm’s remediation of an engagement not performed or reported on in conformity with professional standards in all material respects
- Require the firm to join an AICPA audit quality center applicable to the type of engagement(s) not performed or reported on in accordance with professional standards in all material respects, if applicable.
- Require the firm to submit proof that all A&A staff have attended the AICPA Annual Accounting and Auditing Workshop
- Require the firm to submit the firm’s next monitoring and inspection reports to the RAB

*Note: The RAB should also indicate the date by which these actions should be completed.*

## Example 2

*Scenario* - During planning of a system review of a sole practitioner, the team captain notes that the firm has properly documented its system of quality control in accordance with SQCS No. 8 and that the system appears to be appropriately designed. However, during the review of engagements, the team captain determines that one of the three audits reviewed was not performed or reported on in conformity with applicable professional standards in all material respects. The firm failed to perform or document certain required procedures and there were reporting errors. The engagement deficiencies noted were of such significance that those still relying on the financial statements would place importance on the matters. The team captain reminds the firm of its responsibilities under professional standards to take appropriate action.

While the firm acknowledges that this engagement was nonconforming and, based on the circumstances, that professional standards indicate it would be proper to perform omitted procedures or recall and reissue the applicable reports, the firm is concerned about the business implications of taking such actions. The firm believes the cost it would take to perform the omitted procedures greatly outweighs the benefit to the users of the financial statements. The partner conveys to the team captain that he does not believe the omitted procedures would produce a different report, and that the errors identified in the report are not material. In order to avoid losing current or future clients, the firm elects to forego performing the omitted procedures or recalling and reissuing the reports. The firm elects not to notify the client about the situation or consult with legal counsel.

The team captain disagrees with the firm's considerations about how to address the nonconforming engagement, and the firm did not provide confirmation that the omitted information was immaterial. Additionally, the team captain notes that the firm's quality control policies and procedures over tone at the top state that commercial considerations do not override the quality of the work performed. The team captain determines the firm's reluctance to make the appropriate considerations about how to address the non-conforming engagement evidences non-compliance with this policy.

If the reviewer disagrees with the firm's actions in consideration of the applicable standards, the reviewer should evaluate whether this is indicative of a potential tone at the top deficiency.

If the RAB does not believe the firm's response is appropriate, although it may not require the firm to recall and reissue, it may determine that they are unable to accept the peer review report. The RAB and the peer reviewer should work with the firm to have an acceptable LOR before proceeding. For example, if the firm continues to indicate it does not intend to recall and reissue the report or otherwise appropriately respond to the nonconforming engagement, the RAB does not have to accept the firm's peer review report and may consider the firm as not cooperating with the peer review program.

The peer review report includes the following deficiency:

*Deficiency* – The firm’s system of quality control has not been designed such that commercial considerations do not override the quality of work performed. The firm did not appropriately consider its responsibilities under professional standards to take appropriate action to address nonconforming engagements. The firm originally did not believe any follow up actions were necessary, including recalling and reissuing the reports, notifying the client or consulting with legal counsel due to the business implications of such actions. In our opinion, this contributed to audit engagements performed that did not conform to professional standards in all material respects.

*Firm’s Letter of Response (LOR)* – The firm noted the following in its LOR:

- The nonconforming engagements will be recalled and reissued after performing the appropriate omitted procedures.
- I have contacted two other accounting firms that perform engagements similar to mine. I have implemented a plan for consultation with these firms for guidance in situations with which I am unfamiliar and will request a partner from one of those firms to perform an engagement quality control review on all audit engagements.
- The firm’s monitoring procedures were modified to provide it with reasonable assurance that the firm’s policies and procedures are relevant, adequate, and operating effectively. Specifically, I have hired an outside party to perform annual inspections.
- To ensure commercial considerations do not override the quality of work performed, I will continually evaluate client relationships and specific engagements.

*Note:* The firm should also indicate when these actions will be taken.

*Corrective Actions* – After consideration of the deficiencies and the firm’s LOR, the administering entity’s RAB required the following corrective actions in addition to or as an affirmation of those described by the reviewed firm in its LOR:

- Require the firm to hire an outside party acceptable to the RAB to review the firm’s remediation of all of the engagements not performed or reported on in conformity with professional standards in all material respects identified during the peer review.
- Require the firm to submit the firm’s next monitoring and inspection reports to the RAB.

*Note:* The RAB should also indicate the date by which these actions should be completed.

### Example 3

*Scenario* - Firm C’s scheduling form and client listing did not include ERISA audits. Nothing came to the team captain’s attention during the peer review that indicated the firm performed ERISA engagements and no other matters were noted. The administering



entity accepted the peer review as a pass with no FFCs. Subsequent to the acceptance of the peer review, the administering entity became aware of ERISA audits performed by the firm for periods ended during the peer review year. Acceptance of the firm's peer review report was recalled and a replacement review was scheduled. During the replacement review, the team captain noted that three of the ERISA engagements were nonconforming. The firm indicated the ERISA engagements were omitted from the client listing as the administrative assistant preparing the list did not realize they were subject to peer review. The team captain also noted that in accordance with firm policy, engagement types that are not subject to peer review are also excluded from the firm's internal monitoring and inspection procedures. Therefore the administrative assistant did not include the engagements for the firm's monitoring and inspections either. As they had never been included in internal inspection, the engagement partners did not place emphasis on these engagements and had not stayed current on professional standards.

In this scenario, the firm's lack of leadership involvement in the scope of the firm's peer review and monitoring and inspection process is indicative of a tone at the top significant deficiency. The aggregation of weaknesses in multiple elements of quality control, including the human resources (professional competence), and engagement performance is indicative of a significant deficiency and a fail report is appropriate.

The peer review report for the replacement review includes the following deficiency:

*Deficiency* – The firm's system of quality control has not been designed such that the person or persons assigned operational responsibility for the firm's system of quality control by the firm's leadership has sufficient and appropriate experience to identify and understand quality control issues and to develop appropriate policies and procedures. During our review, we noted ERISA engagements were not included in the firm's client listing of engagements subject to peer review, internal monitoring and inspection. Further, the partners associated with those engagements did not place appropriate emphasis on the engagements to ensure quality. In our opinion, this contributed to audit engagements subject to ERISA that did not conform to professional standards in all material respects.

*Firm's Letter of Response (LOR)* – The firm noted the following in its LOR:

- The firm has modified its quality control policies and procedures to require the following;
  - Monitor compliance with all functional areas of the system and will perform annual inspections on a sample of engagements. We will assign this responsibility to a partner with sufficient and appropriate experience within our firm.
  - Provide sufficient and appropriate resources for the development, communication, and support of quality throughout the firm.
  - Assign personnel based on the knowledge, skills, and abilities required

- We have joined the AICPA Employee Benefit Plan Audit Quality Center (EBPAQC). The firm modified its quality control policies and procedures to require personnel that perform engagements in this specialized area to attend at least eight hours of CPE annually in the specialized area. We are committed to promptly remediating the nonconforming engagements by performing the omitted procedures.

*Note: The firm should also indicate when these actions will be taken.*

*Corrective Actions* – After consideration of the deficiencies and the firm’s LOR, the administering entity’s RAB required the following corrective actions in addition to or as an affirmation of those described by the reviewed firm in its LOR:

- Submit proof of joining the AICPA EBPAQC.
- Require the firm to submit the firm’s next monitoring and inspection report to the RAB
- Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance reviews of ERISA engagements and to report quarterly to the RAB on the firm’s progress

*Note: The RAB should also indicate the date by which these actions should be completed.*

#### Example 4

*Scenario* - As part of the team captain’s planning procedures and review of the firm’s system of quality control documentation, the team captain notes that the firm does not perform annual monitoring or inspections. The team captain discussed the requirements of SQCS 8 with firm leadership and the firm indicated that it did not have the time or the resources to devote to monitoring. As nothing has come to its attention that indicates the work the firm performs is nonconforming, including during the peer review, it does not see the benefit of annual monitoring or inspections.

In this scenario, the firm’s failure to provide sufficient and appropriate resources for the development, documentation and support of its quality control policies and procedures is indicative of a tone at the top deficiency and a pass with deficiencies report is appropriate.

The peer review report includes the following deficiency:

*Deficiency* – The firm’s system of quality control has not been designed such that sufficient and appropriate resources have been designated for the development, documentation and support of its quality control policies and procedures. During our review, we noted the firm did not perform annual monitoring and inspection procedures. While there were no nonconforming engagements identified during the firm’s peer review, the lack of monitoring and inspection indicates the firm’s system of quality control taken as a whole does not provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all

material respects.

*Firm's Letter of Response (LOR)* – The firm noted the following in its LOR:

- The firm will hire an outside party to assist the firm with developing monitoring and inspection policies and procedures that provide reasonable assurance that the policies and procedures related to the system of quality control are relevant, adequate, operating effectively, and complied with in practice.
- The firm will designate the monitoring function to its audit partner.

*Note: The firm should also indicate when these actions will be taken.*

*Corrective Actions* – After consideration of the deficiencies and the firm's LOR, the administering entity's RAB required the following corrective action in addition to or as an affirmation of those described by the reviewed firm in its LOR:

- Require the firm to submit the firm's next monitoring and inspection reports to the RAB

*Note: The RAB should also indicate the date by which these actions should be completed.*

#### Example 5

*Scenario* - During the review of Firm E, the team captain notes that the firm has not updated its quality control document to reflect the requirements of SQCS No. 8 and that the document does not address the elements pertaining to "tone at the top". The team captain does not identify any "no" answers while reviewing the firm's engagements or while testing the functional areas of its system of quality control.

During discussions with firm staff, the team captain notes that the firm appears to be very focused on realization and that staff evaluations are entirely based upon whether staff achieves 95% realization on each engagement. Members of staff confide in the team captain that "no one logs all of their hours anymore" and that the emphasis on realization is impacting quality. The team captain brings the staff members' concerns to the managing partner who rebuffs him, saying he wants a peer review and not a lecture on his business model. The team captain determines that the firm's communicated policy that staff evaluations are entirely based upon realization is indicative that the firm's system of quality control was not designed in conformity with SQCS.

In this scenario, no nonconforming engagements were noted, however, given the severity of the issues identified in this scenario, the team captain appropriately considers elevating this beyond an FFC. The team captain should evaluate the implications of the firm's emphasis on realization while considering the definitions of a finding, deficiency, and significant deficiency. A tone at the top deficiency and a pass with deficiencies report is appropriate.

The peer review report includes the following deficiency:

*Deficiency* – The firm’s system of quality control has not been designed such that the policies and procedures address performance evaluation, compensation, and advancement (including incentive systems) with regard to its personnel in order to demonstrate the firm’s overarching commitment to quality.

*Firm’s Letter of Response (LOR)* – The firm noted the following in its LOR:

- The firm’s performance evaluation policies and procedures were modified to provide it with reasonable assurance that the firm’s policies and procedures are relevant, adequate, and operating effectively. Specifically, the firm will reduce the focus on realization and increase the focus on our commitment to quality.
- We will provide training to all supervising staff to emphasize the correct areas of focus for performance evaluations.

*Note: The firm should also indicate when these actions will be taken.*

*Corrective Actions* – After consideration of the deficiencies and the firm’s LOR, the administering entity’s RAB required the following corrective actions in addition to or as an affirmation of those described by the reviewed firm in its LOR:

- Require the firm to hire an outside party to review the firm’s revised policies and procedures for performance evaluation and to review a sample of evaluations under the new policy.

*Note: The RAB should also indicate the date by which these actions should be completed*

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## PRP Section 4800

### *Summary Review Memorandum (SRM)*

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#### PLANNING

##### Other Planning

- A. Describe any matters of firm or individual regulatory noncompliance within the three years preceding the firm's current peer review year-end and through the date of the exit conference. Discuss how the firm is addressing the matter, the effect on the firm's accounting and audit practice, any consultations with the administering entity (AE), and the impact on your risk assessment and scope of the peer review.
- 
- B. If the firm was previously reviewed, read the prior report and findings reflected in the FFC form(s) and firm representation letter and document the following:
- ~~\_. Evaluate and summarize Summary of~~ the actions taken by the firm in response to any findings, deficiencies or significant deficiencies:
  - Evaluation of whether the actions taken addressed the systemic cause of the finding, deficiency, or significant deficiency
  - If the firm did not perform the actions documented in its prior review responses, evaluation of whether sufficient alternative procedures were performed and if not, whether there are deficiencies in the firm's system of quality control such as leadership responsibilities for quality within the firm (tone at the top)
  - ~~Consideration of Document~~ whether such matters require additional emphasis in the current review and how that will be done.
- 
- C. If the firm or selected engagements have been or are currently being inspected or reviewed by a governmental or other regulator, or the PCAOB, discuss any findings, including those that may have been communicated orally or in draft form with appropriate firm personnel. Document the effects, if any, the findings could have on the planning and performance of review procedures. *See Int. 40-1 and 40-2.*
- 
- D.
1. If the firm uses quality control materials (QCM) developed by a third party, identify the provider(s) and the type of practice aids used. Briefly describe the extent to which the firm uses the provider's materials, including areas that are either customized or in which firm developed materials are substituted. Also describe the firm's procedures for updating and modifying these materials.
- 
2. If the third-party QCM provider(s) underwent a QCM review, describe your consideration of the QCM review report(s). Document the QCM review scope of work and date of the review. If the provider received a report other than "pass," determine the impact on the reviewed firm's peer review risk and scope of work. *See Int. 42-2 and 42-3.*
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3. If the firm uses third-party QCM that were not subject to a QCM review, or were not included in the scope of a QCM review, describe the firm's procedures for ensuring the reliability of the QCM. *See Int. 42-3.*

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4. If the firm uses internally-developed QCM that did not undergo a separate QCM review, summarize the firm's procedures for the developing, updating, and ensuring the reliability of the QCM. *See Int. 42-3.*

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**E.** After evaluating the design of the firm's system of quality control using the Guidelines for Review of Quality Control Policies and Procedures (Sections 4500 and 4600), develop a plan for the nature and extent of compliance testing to be performed using the Guidelines for Testing Compliance with Quality Control Policies and Procedures (Sections 4550 and 4650).

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**EF.** Document your risk assessment of the firm. Consider all of the risk assessment requirements and related guidance in the Standards, Interpretations, and Supplemental Guidance to develop a risk assessment to support your engagement selections. Specifically, paragraphs .38-.63 and the related interpretations, should be considered and documented.

~~Summarize the inherent risk factors related to the reviewed firm's accounting and auditing practice. Highlight any significant changes since the last peer review. Consider the following:~~

- ~~• Firm size, number of offices, degree of autonomy, experience of key leaders~~
- ~~• Firm acquisitions, divestments, restructuring, turnover rates~~
- ~~• Alternative practice structures, use of leased staff or independent contractors~~
- ~~• Nature of firm's practice, including mix of services and client industries~~
- ~~• Risk level of the engagements performed, including regulatory requirements, and any noncompliance issues~~
- ~~• The extent to which the firm specializes by service or industry~~
- ~~• Expansion into new services or industries~~
- ~~• Size of the firm's major engagement(s), relative to the firm's practice as a whole~~
- ~~• Remote staff or client locations, including records or work performed in other countries~~

- ~~New professional standards requirements~~
- Adverse economic factors

*See Int. 52-1.*

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**F.** Summarize the key factors of the firm's system of quality control in relation to the inherent risk noted above. Consider all elements of quality control, including the following:

- ~~Tone at the top reflected by firm management and leadership responsibilities for the accounting and audit practice~~
- ~~Relevant ethical requirements, including independence~~
- ~~Acceptance and continuance of client relationships and specific engagements~~
- ~~Human resources, including
  - ~~CPE policies and the firm's philosophy toward continuing education (accumulate the necessary hours or maintain the needed skills and improve delivery of professional services)~~~~
- ~~Engagement performance, including
  - ~~Adequacy of the firm's professional library~~
  - ~~Suitability of firm's quality control materials and procedures for ensuring reliability, as previously noted~~~~
- ~~Monitoring procedures and related remedial actions~~
- Firm's Engagement Quality Control Reviewer (EQCR) criteria

~~Also consider the results of prior reviews or other oversight. See Int. 52-1.~~

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**G.** ~~Considering the factors previously noted, document how your assessment of inherent and control risk impacts peer review detection risk and the scope of review procedures.~~

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**HG.** Briefly describe and assess the firm's approach to ensuring completeness of the engagement listing. This listing should include engagements with periods ending during the year under review whether issued or not.

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**IH.** Briefly describe how the firm monitors non-attest services provided to attest clients and meets the documentation requirements to ensure independence is not impaired.

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**J.** Based on your responses to the previous questions, Describe your planned selection of office(s) and engagement(s) for review to reduce peer review detection risk to an acceptably low level. Include how the scope covered a reasonable cross-section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with a higher assessed level of peer review risk.

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**K.** If the review is performed at a location other than the reviewed firm's office, describe.

- the impact on the risk assessment, and
- the date the approval was granted from the administering entity.

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**L.** If you plan to significantly reduce the scope of procedures to be performed based on inspection reliance, describe basis for and degree of reliance on the firm's inspection program. Inform the AICPA technical staff during peer review planning and document the discussion.  
*Reliance should not be placed on the firm's inspection program when one was not performed during the current year. See Int. 45-1 and 2; Supp. Guide. Sec. 3100.*

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**M.** Describe any significant deviations from AICPA peer review questionnaires and checklists. Explain the reason(s) for the deviations.  
*If documentation of approval was required prior to utilization of materials, note that it was obtained.*

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**N.** Were you requested not to review any engagements or certain aspects of functional areas? This includes limited access to records, such as personnel files and client acceptance documentation. Yes  No   
*If yes, complete the following questions:*

1. Did the firm submit a written waiver request for this exclusion to its administering entity? Yes  No   
*See Int. 55-1*

***If the firm did not submit a waiver request for the exclusion to its administering entity, contact the administering entity.***

2. Review the request and describe the reason for the request. Explain whether you were satisfied with the reason and document your risk assessment considerations.

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3. Review the exclusion waiver approval from the administering entity. Verify and document that approval was obtained:

- a. If the exclusion waiver approval was not obtained, contact the administering entity.
- b. If the administering entity did not approve the exclusion waiver request due to scope limitation issues, describe the effect on the report to be issued.

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**EN.** Describe any differences between the scheduling form and the engagement listing provided by the firm. If the differences are significant, consult with the AE and document your consultation.

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**PO.** 1. Identify the level of service and industry of the engagement selected for review and not provided to the firm in advance (surprise engagement).

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2. Describe any deviation from this requirement, or revision to the original engagement selected.

## FINDINGS AND CONCLUSIONS

### Overall Findings and Conclusions

- A.** Do you conclude that the firm’s system of quality control was suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, with respect to the following elements of quality control? *If the conclusion is “no” with respect to any element of quality control, indicate with an “X” the applicable reporting implication. Deficiencies and significant deficiencies should be supported by MFC forms and summarized on the Disposition of MFC form.*

	Conclusion		Reporting Implications	
			Deficiency	Significant Deficiency
	Yes	No		
1. Leadership responsibilities for quality within the firm (the “Tone at the Top”)	<input type="checkbox"/>	<input type="checkbox"/>	_____	_____
2. Relevant ethical requirements	<input type="checkbox"/>	<input type="checkbox"/>	_____	_____
3. Acceptance and continuance of client relationships and specific engagements	<input type="checkbox"/>	<input type="checkbox"/>	_____	_____
4. Human resources	<input type="checkbox"/>	<input type="checkbox"/>	_____	_____
5. Engagement performance	<input type="checkbox"/>	<input type="checkbox"/>	_____	_____
6. Monitoring	<input type="checkbox"/>	<input type="checkbox"/>	_____	_____

- B.** If you considered issuing a different type of report than the report issued, describe the situation fully, including the basis for your conclusion.
- 

- C.** If any issues noted on the previous review are repeated findings in the current report or FFC forms, describe the firm’s actions to prevent recurrence of the issue. Discuss the timing of such actions, what is different from previous actions, and whether you concur with the firm’s approach. Additionally, address whether the repeat is an indication of findings, deficiencies, or significant deficiencies in other elements of quality control, such as tone at the top.
- 

- D.** If there were significant differences between the results of the firm’s most recent internal monitoring procedures and the peer review results, document your considerations of how the differences with systemic implications or that were individually significant impacted the peer review conclusions.
- 

- E.** For multioffice firms, if you concluded that the extent of noncompliance at one or more offices was significantly higher than the rest of the firm, briefly describe the situation and the impact on the peer review conclusions.
-

F. Describe the nature and extent of each issue to be discussed at the closing meeting, exit conference or communicated to senior management of the reviewed firm that was not deemed of sufficient significance to include on a MFC form, a FFC form, or in the report, or other materials included elsewhere in the peer review working papers.

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G1. Describe any situations encountered which require consultation with the administering entity. Indicate name of person consulted and date.

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Consulted: \_\_\_\_\_ Date: \_\_\_\_\_

G2. Describe any situations where the Issue Resolution Hotline was consulted. Documentation should include the following:

- a. Name of person consulted
  - b. Date of consultation
  - c. Explanation of the facts and circumstances of the issue(s)
  - d. Basis for concluding whether the selected engagement is non-conforming
  - e. Impact to the peer review as a whole
- 

### Specific Findings

H. Did the review disclose any situations that led the reviewers to conclude that an engagement was not performed or reported on in conformity with professional standards in all material respects (nonconforming)? the financial statements did not conform in all material respects with generally accepted accounting principles (GAAP) (or, if applicable, a special purpose framework) and the auditor's or accountant's report was not appropriately modified? [AU-C section 560; ET 203]<sup>fn 7</sup> - Yes  No  N/A

If "Yes," document the following for each nonconforming engagement:

1. Type of engagement reviewed, including level of service and industry

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2. MFC number(s) where the reasons contributing to the nonconformity are documented and the disposition of those MFCs

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3. Procedures performed to expand scope and the results of the procedures or explanation as to why scope expansion was not considered necessary

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4. The firm's planned or taken remediation of the nonconforming engagement(s)

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<sup>fn 7</sup> These situations should be reflected on the "System Review Engagement Statistics Data Sheet," if applicable. Also, when there is a disagreement with the reviewed firm about these situations, the reviewers should consult with the administering entity or its designee.

- 
- 
5. Describe your evaluation of the firm's remediation, considering the following:
- a. Has the firm adequately described its consideration and avoided labeling the nonconformity as "an oversight" or "isolated"?
  - b. If the firm has completed its remediation:
    - i. Was the firm's remediation appropriate and in accordance with professional standards?
    - ii. Did you review the remediation?
  - c. If the firm has not completed its remediation:
    - i. Is the firm's planned remediation appropriate and in accordance with professional standards?
    - ii. If the firm has determined it is appropriate to address the reason for nonconformity on future engagements only and does not plan to remediate the nonconforming engagement, are you comfortable this is an appropriate response?
      - 1. Examples to consider –
        - a. If the firm says the omitted information was immaterial, have they confirmed it was immaterial or are they assuming it was?
        - b. Does the subsequent engagement being imminent really resolve any concerns about the previous engagement being nonconforming?
      - iii. Do you recommend a corrective action or implementation plan for the RAB to follow up on the remediation when completed?
    - d. If the firm's taken or planned remediation is not appropriate or in accordance with professional standards, have you considered the implications to the firm's system of quality control such as tone at the top?
- 
- 

Type of engagement reviewed, including level of service and industry.

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- 1. Describe each situation fully.

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- 2. Indicate whether the firm properly considered the situation(s), including its responsibilities under relevant professional standards, reliance by third-party users, and expectations of regulatory bodies, if applicable.

---
- 3. Indicate whether the firm has provided an appropriate (genuine, comprehensive, feasible) response to the MEC(s) discussing each situation, including the actions the firm has taken or plans to take (including timing) to remediate the engagement(s).

---
- 4. If the firm has performed the additional procedures necessary to support the previously issued auditor's or accountant's report, revised and reissued the auditor's or accountant's report, or communicated to parties to discontinue reliance on the previously issued financial statements, indicate whether you have reviewed the documentation and whether the actions taken are in accordance with applicable professional standards.

---

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions (including timing).

---

6. Provide specific details on the procedures performed to expand scope and the results of the procedures. [Std. par. 68 and Interpretation 67-1]

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7. Did this situation require the issuance of a report with a grade of *pass with deficiency* or *fail*, or result in an FFC form? Yes  No  N/A  If “No,” why not?

---

I. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform or report on an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, *Government Auditing Standards*? [AU-C section 585; ET 202]<sup>fn.8</sup> Yes  No  N/A  If “Yes,” Type of engagement reviewed, including level of service and industry.

---

1. Describe each situation fully.

---

2. Indicate whether the firm properly considered the situation(s), including its responsibilities under relevant professional standards, reliance by third-party users, and expectations of regulatory bodies, if applicable.

---

3. Indicate whether the firm has provided an appropriate (genuine, comprehensive, feasible) response to the MFC(s) discussing each situation, including the actions the firm has taken or plans to take (including timing) to remediate the engagement(s).

---

4. If the firm has performed the additional procedures necessary to support the previously issued auditor’s or accountant’s report, revised and reissued the auditor’s or accountant’s report, or communicated to parties to discontinue reliance on the previously issued financial statements, indicate whether you have reviewed the documentation and whether the actions taken are in accordance with applicable professional standards.

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5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions (including timing).

---

6. Provide specific details on the procedures performed to expand scope and the results of the procedures. [Std. par. 68 and Interpretation 67-1]

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<sup>fn.8</sup> See footnote 7.

7. Did this situation require the issuance of a report with a grade of *pass with deficiency* or *fail*, or result in an FFC form? Yes  No  N/A  If “No,” why not?
- 

**J.** Did the review disclose any situations that led the reviewers to conclude that the firm did not perform or report on an engagement in all material respects in accordance with standards for accounting and review services? [ET 202]<sup>fn-9</sup> Yes  No  N/A  If “Yes,” Type of engagement reviewed, including level of service and industry.

---

1. Describe each situation fully.

---

2. Indicate whether the firm properly considered the situation(s), including its responsibilities under relevant professional standards, reliance by third party users, and expectations of regulatory bodies, if applicable.

3. Indicate whether the firm has provided an appropriate (genuine, comprehensive, feasible) response to the MFC(s) discussing each situation, including the actions the firm has taken or plans to take (including timing) to remediate the engagement(s).

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4. If the firm has performed the additional procedures necessary to support the previously issued auditor’s or accountant’s report, revised and reissued the auditor’s or accountant’s report, or communicated to parties to discontinue reliance on the previously issued financial statements, indicate whether you have reviewed the documentation and whether the actions taken are in accordance with applicable professional standards.

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5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions (including timing).

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6. Provide specific details on the procedures performed to expand scope and the results of the procedures. [Std. par. 68 and Interpretation 67-1]

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7. Did this situation require the issuance of a report with a grade of *pass with deficiency* or *fail*, or result in an FFC form? Yes  No  N/A  If “No,” why not?

---

**K.** Did the review disclose any situations that led the reviewers to conclude that the firm did not perform or report on an engagement in all material respects in accordance with the standards for attestation engagements or any other standards not encompassed in items H, I, and J of this section?<sup>fn-10</sup> Yes  No  N/A  If “Yes,”

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<sup>fn-9</sup> See footnote 7.

<sup>fn-10</sup> See footnote 7.



Type of engagement reviewed, including level of service and industry.

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1. Describe each situation fully.

---

2. Indicate whether the firm properly considered the situation(s), including its responsibilities under relevant professional standards, reliance by third party users, and expectations of regulatory bodies, if applicable.

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3. Indicate whether the firm has provided an appropriate (genuine, comprehensive, feasible) response to the MFC(s) discussing each situation, including the actions the firm has taken or plans to take (including timing) to remediate the engagement(s).

---

4. If the firm has performed the additional procedures necessary to support the previously issued auditor's or accountant's report, revised and reissued the auditor's or accountant's report, or communicated to parties to discontinue reliance on the previously issued financial statements, indicate whether you have reviewed the documentation and whether the actions taken are in accordance with applicable professional standards.

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5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions (including timing).

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6. Provide specific details on the procedures performed to expand scope and the results of the procedures. [Std. par. 68 and Interpretation 67-1]

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7. Did this situation require the issuance of a report with a grade of *pass with deficiency* or *fail*, or result in an FFC form? Yes  No  N/A  If "No," why not?

---

L. If the firm conducted internal inspection procedures for the current year, did it identify any non-conforming engagements on which the firm must consider taking action pursuant to the standards cited in items H, I, J, and K of this section? Yes  No  N/A

If "Yes," document the following for each nonconforming engagement:

1. Type of engagement reviewed, including level of service and industry

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2. The firm's scope expansion procedures and results of those procedures or explanation as to why scope expansion was not considered necessary

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3. The firm's planned or taken remediation of the nonconforming engagement(s)

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4. Evaluation of the firm's remediation (See question above for considerations)

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5. Impact of the firm's inspection results on the peer review engagement selection and conclusions

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Type of engagement reviewed, including level of service and industry.

---

1. Describe each situation fully.  

---
2. Indicate whether the firm properly considered the situation(s), including its responsibilities under relevant professional standards, reliance by third-party users, and expectations of regulatory bodies, if applicable.  

---
3. Indicate whether the firm has provided an appropriate (genuine, comprehensive, feasible) response to the MEC(s) discussing each situation, including the actions the firm has taken or plans to take (including timing) to remediate the engagement(s).  

---
4. If the firm has performed the additional procedures necessary to support the previously issued auditor's or accountant's report, revised and reissued the auditor's or accountant's report, or communicated to parties to discontinue reliance on the previously issued financial statements, indicate whether you have reviewed the documentation and whether the actions taken are in accordance with applicable professional standards.  

---
5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions (including timing).  

---
6. Provide specific details on the procedures performed to expand scope and the results of the procedures. [Std. par. 68 and Interpretation 67-1]  

---
7. Did this situation require the issuance of a report with a grade of *pass with deficiency* or *fail*, or result in an FFC form? Yes  No  N/A  If "No," why not?  

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**M.** If any of the bolded questions in PRP sections 20,700 or 20,700A, *Employee Benefit Plan Audit Engagement Checklist*, were answered "no," did you conclude that the firm performed and/or reported on that engagement in conformity with applicable professional standards in all material respects? Yes  No  N/A  If yes, explain your reasoning.  

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**N.** For findings, deficiencies, and significant deficiencies identified during the review, were you able to identify the systemic cause? Yes  No  N/A

In the rare circumstance it was not practicable to identify the systemic cause, document the reasons below.

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**NO.** Based on the findings, if any, documented on FFC form(s), are you satisfied with all of the following: Are you satisfied that the firm's response on FFC form(s) and the letter of response are comprehensive, genuine, and feasible? Yes  No  N/A

- ~~• The firm's response is comprehensive, genuine, and feasible. Yes  No  N/A   
— If no, describe any concerns:~~
- 

- ~~• The firm's response describes an acceptable implementation plan, including  
— the person(s) responsible for implementation,  
— the timing of the implementation and, if applicable,  
— additional procedures to ensure the finding is not repeated in the future.~~

~~Yes  No  — If no, describe any concerns.~~

---

**O.** Based on the findings, if any, documented on FFC form(s), do you believe an implementation plan should be required of the firm by the report acceptance body? Yes  No  N/A  *If yes, describe the plan you would recommend, including timing.*

---

**P.** Based on the deficiencies and significant deficiencies, if any, documented in the report, do you believe a corrective or monitoring action should be required of the firm by the report acceptance body? Yes  No  N/A  *If yes, describe the plan you would recommend, including timing, and how it integrates with the firm's own planned actions.*

---

**SYSTEM REVIEW ENGAGEMENT STATISTICS DATA SHEET**

**Firm Number**

**Review Number**

**I. Engagement Statistics**

	<i>Total No. Re- viewed</i>	<i>Total Not in Conformity With Applica- ble Profes- sional Stand- ards in All Material Re- spects</i>
<b>Engagements Subject to Government Auditing Standards (GAS):</b>		
Single Audit Act (A-133) engagements	_____	_____
All others subject to GAS	_____	_____
<b>Audit Engagements:</b>		
Employee Retirement Income Security Act (ERISA):		
Defined Contribution Plans—(excluding 403(b) plans)	_____	_____
Defined Contribution Plans—(403(b) plans only)	_____	_____
Defined Benefit Plans	_____	_____
ERISA Health and Welfare Plans	_____	_____
Employee Stock Ownership Plans (ESOP)	_____	_____
Other Employee Benefit Plans	_____	_____
Federal Deposit Insurance Corporation Improvement Act (FDICIA)	_____	_____
Entities subject to Securities and Exchange Commission (SEC) Independence Rules:		
Carrying Broker-Dealers	_____	_____
Non-Carrying Broker-Dealers	_____	_____
Other	_____	_____
Other Audits Under Statements on Auditing Standards	_____	_____
Other Audits Under PCAOB Standards, not covered by PCAOB permanent inspection program	_____	_____
<b>Statements on Standards for Accounting and Review Services (SSARs):</b>		

	<i>Total No. Re- viewed</i>	<i>Total Not in Conformity With Applica- ble Profes- sional Stand- ards in All Material Re- spects</i>
Reviews	_____	_____
Compilations With Disclosures	_____	_____
Compilations Omit Disclosures	_____	_____
Preparation Engagements With Disclosures	_____	_____
Preparation Engagements Omit Disclosures	_____	_____
<b>Statements on Standards for Attestation Engagements (SSAEs):</b>		
Financial Forecast and Projection—Examination	_____	_____
Compiled Financial Forecast and Projection	_____	_____
Examination of Service Organization Control Reports (SOC Reports):		
SOC 1	_____	_____
SOC 2	_____	_____
SOC 3	_____	_____
Examinations of Written Assertions	_____	_____
Reviews of Written Assertions	_____	_____
Agreed-Upon Procedures	_____	_____
Attest engagements under PCAOB standards, not covered by PCAOB inspection	_____	_____
Other	_____	_____
<b>TOTAL—All Engagements</b>	_____	_____

## II: Reasons and Action Summary

List engagements not performed and/or reported in conformity with applicable professional standards in all material respects.

<i>Type of engagement reviewed</i>	<i>Reason code</i>	<i>Action code</i>	<i>Comments</i>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

**REASON CODES** for engagements not performed and/or reported in conformity with applicable professional standards in all material respects:

GAA Non-GAAS and Non-GAAP

GAP Non-GAAP

GAS Non-GAAS

SAR Non-SSARS

ATT Non-SSAE

~~ACTION CODES for engagements not performed and/or reported in conformity with applicable professional standards in all material respects:~~

- ~~1. Report or financial statement recalled, revised, and reissued.~~
- ~~2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent).~~
- ~~3. Omitted auditing procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent).~~
- ~~4. Cause of independence impairment eliminated.~~
- ~~5. Unable to apply omitted procedures.~~
- ~~6. Notified parties that no reliance should be placed on the report issued.~~
- ~~7. Engagement letter to be prepared on subsequent engagements where a compilation report is not issued.~~
- ~~8. Engagement letter on subsequent engagements to include the required descriptions or statements, or additional matters, when applicable, where a compilation report is not issued.~~

**III: Exclusion Summary**

List engagements excluded from review.

<i>Type of engagement</i>	<i>Excluded reason code</i>	<i>Comments</i>

**EXCLUDED ENGAGEMENT REASON CODES**

1. Subject of litigation
2. Subject of investigation by government agency

3. Client imposed restrictions

4. Other



## PRP Section 4900

### Team Captain Checklist

	Completed	Not Applicable
<p><b>II. Planning the Review</b> (see AICPA Standards for Performing and Reporting on Peer Reviews (sec. 1000) (Standards) paragraph .106)</p>		
<p>4. <u>Read recent Peer Review Alerts and those applicable to the types of engagements that will be reviewed (such as those that assist with the review of and conclusion on Yellow Book audits)</u></p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>65. Obtain the results of the prior peer review <u>from the firm or administering entity</u> (see Standards paragraph .39): <u>and consider whether the issues discussed in those documents require additional emphasis in the current review and, in the course of the review, evaluate the actions of the firm in response to the prior report. Document your considerations in the Summary Review Memorandum.</u> Documents to be obtained include the prior peer review:</p> <ul style="list-style-type: none"> <li>• <del>Consider whether the issues discussed in those documents require additional emphasis in the current review and, in the course of the review, evaluate the actions of the firm in response to the prior report. Document your considerations in the Summary Review Memorandum.</del></li> <li>• <del>Prior peer review r</del>Report.</li> <li>• <del>The l</del>etter of response, if applicable.</li> <li>• <del>The l</del>etter of acceptance, <del>all from the reviewed firm.</del></li> <li>• <del>Obtain the prior</del>FFC forms, if applicable (from the administering entity if the team captain's firm did not perform the prior peer review).</li> <li>• <u>Firm representation letter</u></li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>

78. Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice and related quality control system to plan the review (see Standards paragraphs .41–.45):



- Understanding of the firm's accounting and auditing practice and system of quality control through inquiries of appropriate management and other personnel, review of the firm's internal policies and procedures, and review of the firm's responses to questionnaires developed by the board.
- Request the firm provide a copy of its ~~completed Quality Control Policies and Procedures Questionnaire (section 4300 or section 4400, as applicable). Firms that have developed a comprehensive quality control document as contemplated by SQCS No. 8 may generally provide that document to the peer reviewer in lieu of completing this questionnaire. However, the team captain may request that a firm complete this checklist even if it has a quality control document.~~
- ~~Request the firm to complete section 4750, *Managing Partner/Chief Executive Officer Interview*.~~
- Understanding should include knowledge about
  - the reviewed firm's organization and philosophy, and
  - the composition of its accounting and auditing practice.
- Sufficient understanding of the reviewed firm's system of quality control with respect to each of the quality control elements in SQCS No. 8 to plan the review. Quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements:

- Leadership responsibilities for quality within the firm (the tone at the top)
- Relevant ethical requirements (such as independence, integrity, and objectivity)
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

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*Note: The nature, extent, and formality of such policies and procedures should be comprehensive and suitably designed in relation to the firm's size, the number of its offices, the degree of operating autonomy allowed its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm's practice, and appropriate cost-benefit considerations.*

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- Knowledge about the design of the reviewed firm's quality control policies and procedures in accordance with quality control standards established by the AICPA and how the policies and procedures identify and mitigate risk of material noncompliance with applicable professional standards.
- Understanding of monitoring policies and procedures since its last peer review and their potential effectiveness.

- Request the firm to provide
  - an engagement list. The list should contain all engagements (by name or by blind code number) with periods ending during the year under review whether issued or not and covered by the definition of an accounting and auditing practice for peer review purposes. The list should contain the data described in question 8 of paragraph .36 in section 4100, *Instructions to Firms Having a System Review*, for each engagement. Discuss with the firm the process and related controls in place to ensure completeness of the engagement listing population including, but not limited to, all must-select engagements.
  - a list of the firm’s personnel, showing name, position, and years of experience (a) with the firm and (b) in total.

9. Meet with the managing partner or person responsible for the firm’s system of QC and discuss the following: □ □

- significant quality control risks within the firm and what the firm is doing to manage those risks
- new clients or industries that the firm considers to have significant risk
- how the firm manages risk of economic dependency for the firm, its individual offices and its partners
- significant factors considered when monitoring or making changes to the firm’s system of quality control
- how the firm monitors and resolves issues related to difficult client engagement situations
- how the firm management monitors and supports the firm’s quality control initiatives
- firm criteria for partner advancement and compensation and how that is communicated to the firm
- engagements that offered significant risk or issues during the year

**III. Performing the Review:**

~~1214~~. Conclude on the review of engagements (see Standards paragraphs .66–.67):

- Conclude the review by documenting whether anything came to its attention that caused it to believe that the engagement was not performed and/or reported on in conformity with applicable professional standards in all material respects. (Int. 66-1)
- Promptly inform the firm when an engagement is not performed and/or reported on in conformity with applicable professional standards, and remind the firm of its obligation under professional standards to take appropriate action. (Int. 67-1)
- Consider whether the firm’s taken or planned remediation is in conformity with professional standards

~~1618~~. Aggregate and systemically evaluate the matters (see Standards paragraphs .75–.86):

- Review team must aggregate matters noted during the peer review, and determine whether the matters were the
  - result of the design of the reviewed firm’s system of quality control, or
  - failure of its personnel to comply with the firm’s quality control policies and procedures.
- Design matters exist when the reviewed firm’s system of quality control is not designed properly. For example, the system of quality control
  - is missing a quality control policy or procedure, or
  - existing quality control policies and procedures, even if fully complied with, would not result in en-

gements performed and/or reported on in accordance with professional standards in some respect.

- Compliance matters exist when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it:
  - The review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in engagements not being performed and/or reported on in conformity with applicable professional standards in all material respects.
- Where there is indication that a matter(s) could be a finding, and/or the firm failed to perform and/or report in conformity with applicable professional standards in all material respects, the review team must determine the systemic cause of the finding or failure (Int. 83-1). Causes that may be systemic and affect the type of peer review report issued include the following:
  - The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
  - The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
  - The failure should have been detected if the firm's quality control

policies and procedures had been followed.

— The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion.

- A finding or failure may be the result of an isolated human error, and therefore, would not necessarily mean that a peer review report with a peer review rating of *pass with deficiencies* or *fail* should be issued.
- The review team must consider the pattern and pervasiveness of matters and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature, systemic causes, and relative importance in the specific circumstances in which they were observed.

1719. Determine the relative importance of matters (see Standards paragraphs .69–.72):



- A matter is a result of the peer reviewer's evaluation of the design of the reviewed firm's system of quality control and/or tests of compliance with it.
  - Tests of compliance include inspection, inquiry, and observation performed by the reviewing engagements and testing other aspects of the reviewed firm's system of quality control.
  - Matters are typically one or more “no” answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further



consideration in the evaluation of a firm's system of quality control.

- A matter is documented on a MFC form.
- Depending on the resolution of a matter and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated and, after considering the nature, systemic causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency. A matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.
- A finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform and/or report in conformity with applicable professional standards.
  - A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency.
  - If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate.
  - A finding not rising to the level of a deficiency or significant deficiency is documented on a FFC form.
  - Administering entity will evaluate FFC form responses for appropriateness and responsiveness, and

determine if any further action is necessary.

- A deficiency is one or more findings that the peer reviewer has concluded, due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects.
  - It is not a significant deficiency if the peer reviewer has concluded that except for the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
  - Such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- A significant deficiency is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects.
  - Such deficiencies are communicated in a report with a peer rating of *fail*.

1820. Form conclusions on the type of report to issue (see Standards paragraphs .87–.90):



- The team captain must use professional judgment in determining the type of peer review report to issue. This judgment requires the consideration of several factors, including
  - an understanding of the firm’s system of quality control and the nature, systemic causes, pattern, and pervasiveness of matters, and
  - their relative importance to the firm’s system of quality control taken as a whole, including limitations on the scope of the review.
  
- A report with a peer review rating of *pass* should be issued when the team captain concludes that the firm’s system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
  - There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, or significant deficiencies, ~~or recommendations~~.
  - In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.
  
- A report with a peer review rating of *pass with deficiencies* should be issued when the team captain concludes that the firm’s system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a

certain deficiency or deficiencies that are described in the report.

— These deficiencies are conditions related to the firm’s design of and compliance with its system of quality control that could create a situation in which the firm would have less than reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the deficiencies to the quality control system taken as a whole. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.

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

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

~~1921.~~ Conduct a closing meeting ~~an exit conference~~ with senior members of the reviewed firm to discuss the review team’s comments; matters, findings, deficiencies, and significant deficiencies identified; recommendations; MFCs and related FFCs; and the type of report to be issued and the deficiencies or significant deficiencies to be



included in such report and to resolve any disagreements (see Standards paragraphs .91–.92):

22. After the firm responds to matters, findings, deficiencies, and significant deficiencies, assess the firm’s response for any impact to the peer review. Conduct an exit conference to discuss the results of the review to be submitted to the administering entity. (see Standards paragraphs .91–.92)



- ~~Ordinarily the team captain should be physically present at the exit conference:
  - ~~Representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities may also attend.~~~~
- ~~The exit conference should be postponed if there is any uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report.~~
- ~~The review team should communicate that the firm will be required to respond to the findings documented on the FFC form(s), and/or the deficiency(ies) or significant deficiencies included in the peer review report.~~
- ~~The review team should communicate that the firm may be required, if applicable, to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report and/or (2) complete an implementation plan to address the findings noted in the FFC form(s).~~
- ~~The review team should discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm’s enrollment in the program.~~
- ~~The exit conference is the appropriate vehicle for providing suggestions to the firm that are not included in the report, FFC form(s), or MFC form(s).~~

- ~~• The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.~~
- Notify the administering entity promptly if there is a change in the date of the exit conference.

~~2023.~~ Prepare a written report on the results of the review and provide a copy to the reviewed firm within 30 days of the exit conference date, or by the firm’s peer review due date (whichever is earlier) (see Standards paragraphs .94–.96).

~~2124.~~ Review and provide comments to the reviewed firm on its response to the report, and FFC forms, if applicable (see Standards paragraphs .97–.101):

- If the reviewed firm receives a report with a peer review rating of *pass with deficiencies* or *fail*, the reviewed firm should respond in writing to the deficiencies or significant deficiencies ~~and related recommendations~~ identified in the report in a letter of response addressed to the administering entity’s peer review committee.

~~— The letter of response should be addressed to the administering entity’s peer review committee.~~

~~— The letter should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report.~~

~~— The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the team captain or by the firm’s peer review due date, whichever date is earlier.~~

~~— Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the team captain for review, evaluation, and comment (Int. 97-1).~~

- The reviewed firm should respond to all findings ~~and related recommendations~~ not rising to the level of a deficiency or significant deficiency on the related FFC forms.

~~— Responses should describe the plan the reviewed firm has implemented or will implement (including timing) with respect to each finding.~~

~~— The team captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity.~~

- The firm's letter of response and/or response to a finding should describe the firm's actions taken or planned to remediate deficiencies and significant deficiencies in the firm's system of quality control and nonconforming engagements, if any, and the timing of the remediation.
- Illustrative letters of response are located in Appendixes F, H, J, and L.

22.5 Send the appropriate working papers to the administering entity within 30 days of the exit conference or by the firm's peer review due date, whichever is earlier.

- For all reviews, submit a copy of the following:
  - The report and letter of response, if applicable. ~~(Reminder: The reviewer is not expected to delay submission of peer review documents to the administering entity for receipt or review of the letter of response from the firm.)~~

- *Summary Review Memorandum.*
- DMFC form, if not submitted via PRISM.
- The FFC forms, as applicable.
- The MFC forms, if not submitted via PRISM.
- The 22,100-Part A, *Supplemental Checklist(s) for Review of Single Audit Act/ A-133 Engagement(s)* (if applicable).
- The engagement profile(s) for A-133 engagements reviewed (if applicable).
- The firm's representation letter.
- Summary of No Answers for the Guidelines for Review and Testing of Quality Control Policies and Procedures.

- Note that other working papers on these reviews are subject to oversight procedures, which may be requested at a later date.
- For reviews administered by the National PRC, also include all other working papers incorporated by reference, including the engagement checklists, ~~Quality Control Policies and Procedures Questionnaire, Guidelines for Review and Testing of Quality Control Policies and Procedures,~~ quality control document and related practice aids, Team Captain Checklist, ~~Managing Partner/Chief Executive Officer Interview,~~ staff interview, focus group, or other interview sessions, planning documents, and any other relevant documents.



## PRP Section 4960

### *Instructions for Use of Findings for Further Consideration (FFC) Forms for System Reviews*

- .01 The Finding for Further Consideration (FFC) form is prepared in connection with a System Review if there are one or more matters that the peer reviewer believes results in (a) a condition in which there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards in all material respects, but the results were not of such relative importance to include in a report with a peer review rating of *pass with deficiencies* or *fail*. Each FFC form
- a. indicates which Matters for Further Consideration (MFCs) (by number) are addressed.
  - b. references the professional standard(s) applicable to the finding.
  - c. references the industry and level of service applicable to the finding, when a finding is industry specific, if applicable.
  - d. includes a summary of the reviewer's description of the finding from the MFCs addressed by this FFC, including where possible on System Reviews, the ~~underlying systemic~~ cause of the finding. The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable.
  - e. indicates the type of finding: design or compliance.
  - f. indicates whether the finding was noted in the prior peer review report or FFCs.
  - ~~g. includes the reviewer's recommendation(s) written in a manner such that the firm can appropriately respond.~~
  - ~~hg. includes the reviewed firm's response. The reviewed firm should indicate whether it agrees with the finding and the reviewer's recommendation. The reviewed firm's response should describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The firm's response should address its actions taken or planned to remediate findings in the firm's system of quality control and nonconforming engagements, if applicable, and should including the timing of the remediation.~~
  - ~~i. has the reviewed firm's additional response attached.~~
  - jh.* is signed by an individual charged with governance responsibility of the firm as a whole.
  - ki.* is signed by the team captain on the peer review.
  - lj.* is part of the working papers and administrative files and is not a part of the reporting process.

~~*mk.* is submitted by the firm to the team captain or review captain no later than 2 weeks after the exit conference, or by the peer review's due date, whichever is earlier, so that they can be provided by the team captain with the applicable working papers to the administering entity as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference~~

*nl.* will be reviewed by the administering entity, with the applicable MFC forms, to determine if any additional firm action(s) will be required.

*om.* is not tied to the reporting process or to the acceptance or completion of the peer review, but as with all documents, needs to be completed properly before the review can be accepted. It is considered a part of the working papers and administrative files when a firm implementation plan is required by the peer review committee. Firms are expected to agree to and complete any such implementation plans as a part of cooperating with the administering entity and the board in all matters related to the review.

~~*p.* allows the reviewer to use professional judgment in writing the recommendation(s) to the finding as long as it is written in a way that it would be expected for the reviewed firm to understand what the finding is and why it happened, and the recommendation appears appropriate in the circumstances. Some components of the FFC form may need to be completed after other MFC forms and the Disposition of Matter for Further Consideration (DMFC) form are completed. If the MFC and FFC forms are completed in their entirety and include the elements described here, it is expected that the administering entity would not require any revisions to them.~~

*qn.* along with the associated MFC forms and the DMFC form, and, if applicable, firm implementation plan, is subject to oversight.

**.02** A peer reviewer notes a *matter* as a result of his or her evaluation of the design of the reviewed firm's system of quality control or tests of compliance with it. A *finding* is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer will conclude whether one or more findings are a deficiency or significant deficiency.

**.03** When the review team is faced with an indication that the firm failed to perform or report in conformity with applicable professional standards in all material respects, the review team must determine the systemic cause of the failure and document it along with the description on the FFC form. If the reviewer believes that the probable-systemic cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a failure to perform or report in conformity with applicable professional standards in all material respects on an engagement or a finding within a functional area also exists in other engagements or in other functional areas, the reviewer needs to consider carefully the need to issue a peer review report with a peer review rating of *pass with deficiencies* or *fail*. Although an isolated matter or an instance of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report, its nature, systemic cause (if determinable), and relative importance for the firm's system of quality control as a whole should be evaluated in conjunction with the review team's other findings before making a final determination.

**.04** FFC forms on System Reviews require that the reference be made to the applicable professional standard(s) to which the finding relates. The reviewer must complete the professional standards reference section

before the form is given to the firm for their comments. Including a specific reference allows the firm to consult with that section of professional standards in order to prepare an informed response.

- .05** The reviewed firm should be reminded to include comments beyond “yes” or “no” to indicate their agreement with the finding. ~~If the reviewed firm disagrees with the finding, they should detail the basis for their disagreement, including the references to professional standards that support that basis.~~ If the reviewed firm agrees with the comment, they should be encouraged to provide information that can help the reviewer identify any systemic cause underlying the finding. If the reviewed firm disagrees with the finding, they should detail the basis for their disagreement, including the references to professional standards that support that basis follow the disagreement guidance in paragraph .93 of the standards.
- .06** It is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, ~~the~~ AICPA Peer Review Board encourages the reviewed firm to work with the team captain to develop recommendations remedial actions that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the peer review. Experience shows that improvement is more likely to occur when the recommendations remediation describes specific actions to be taken. Therefore, a response limited to the firm’s comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.
- .07** FFC forms will be retained by the administering entity in the administrative files until the completion of the next peer review. They will be considered during the performance of the next peer review. The administering entity’s peer review committee will determine if a finding should require an implementation plan from the reviewed firm in addition to the plan described by the firm in its response to the findings on the FFC form.
- .08** Reviewers are encouraged to use the electronic version. FFC forms may be submitted handwritten, however, the form must be legible, or it may be returned.

**.09**

### FINDING FOR FURTHER CONSIDERATION (FFC) FORM

FFC #

REVIEWED FIRM

PEER REVIEW YEAR-END

MFC(S) COVERED BY THIS FORM (List MFC #s)

PROFESSIONAL STANDARDS REFERENCE(S)

INDUSTRY <sup>fn \*</sup>

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LEVEL OF SERVICE <sup>fn \*</sup>

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REVIEWER'S DESCRIPTION OF THE FINDING (The description of the finding should include the applicable requirement of Statements on Quality Control Standards, the scenario that led to the finding, and should reference nonconforming engagements as a result of the finding, if applicable.)

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SYSTEMIC CAUSE OF FINDING

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Type of Finding:  Design  Compliance

WERE SIMILAR FINDINGS NOTED IN THE PRIOR REVIEW?      YES       NO

REVIEWER'S RECOMMENDATION

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<sup>fn \*</sup> Related industry and level of service should be noted in instances where the finding is industry specific.

<sup>fn \*</sup> Related industry and level of service should be noted in instances where the finding is industry specific.

REVIEWED FIRM'S RESPONSE €

The response should describe the following: ~~(a) how the firm intends to implement the reviewer's recommendation [or alternative plan if the firm does not agree with the reviewer's recommendation]; (b) the person(s) responsible for implementation; (c) the timing of the implementation; and (d) if applicable, additional procedures to ensure that the finding is not repeated in the future.)~~

For nonconforming engagements, including the following:

- The firm's actions taken or planned to remediate the engagements identified on the FFC form as nonconforming.
- The firm's actions taken or planned to remediate findings in the firm's system of quality control (see interpretations)

For systemic issues unrelated to nonconforming engagements:

- The firm's actions taken or planned to remediate findings in the firm's system of quality control

Timing of the remediation

Reviewed firm's additional response is attached

Authorized individual charged with governance responsibility

of the firm as a whole

Date:

Team captain

Date:

*This document will be retained by the administering entity until the completion of the next peer review and will be considered during the performance of that peer review.*

*If handwritten, this form must be legible, or it may be returned.*

## PRP Section 6100

### *Instructions to Firms Having an Engagement Review*

- .07 The firm ~~is required to make specific representations as noted in paragraph .208, “Appendix B, Considerations and Illustrations of Firm Representations.” will provide the review captain with written representations, at a minimum, relating to the following matters:~~
- ~~a. Acknowledge responsibility for complying with the rules and regulations of state boards of accountancy and other regulations. Confirm, to the best of its knowledge and belief, that there are no known situations, or a summary of situations, where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review). If there are known situations of noncompliance, the confirmation should first summarize the situation(s) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance. The representation should confirm that other than the summarized situation(s), there are no known situations of noncompliance.~~
  - ~~b. Confirm the list of engagements provided to the reviewer (1) included all engagements with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued, (2) acknowledge that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, will result in referral of the matter for investigation of a possible violation to the appropriate regulatory, monitoring, and enforcement bodies, and (3) state that the firm does not perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to PCAOB permanent inspection.~~
  - ~~c. Confirm it will remediate nonconforming engagements as stated by the firm on the Matter for Further Consideration Form, Finding for Further Consideration Form, or Letter of Response, as applicable.~~
  - ~~d. Communications or summary of communications from regulatory, monitoring, or enforcement bodies. State that the firm has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the review captain. State that the firm has provided the review captain with any other information requested, including communications by regulatory, monitoring, or enforcement bodies relating to allegations or investigations in the conduct of its accounting, auditing, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year end, if applicable. of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within the three years preceding the firm’s current peer review year-end and through the date of the exit conference. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review. In addition, the reviewer may inquire if~~

~~there are any other issues that may affect the firm's practice. Confirm, to the best of its knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year end OR Include a summary of the restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year end~~

- ~~e. Restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year end.~~
- ~~d. Completeness of the Engagement Summary Form provided to the reviewer. Completeness includes inclusion of all engagements performed, whether issued or not, under Government Auditing Standards, audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act of 1991 FDICIA, audits of carrying broker-dealers, examinations of Service Organizations Control (SOC) 1 and 2 engagements, as applicable, and availability of the engagements with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection. (Note that the aforementioned specific types of engagements would prompt a System Review instead of an Engagement Review and, if present, the firm and reviewer should contact its administering entity; however, the representation should be made either way.)~~
- ~~e. Discussions of significant issues from reports or communications, or both, from other practice monitoring or external inspection programs, such as the PCAOB, with the review captain.~~
- ~~ef. State that it understands the intended uses and limitations of the quality control materials it has developed or adopted, and it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting practice. Acceptance of responsibility for understanding, tailoring, and augmenting the quality control materials that the firm develops or adopts for use in its accounting and auditing practice.~~
- ~~g. Other representations requested obtained by the review captain based will depend on the circumstances and nature of the peer review.~~

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



investigate the circumstances and consider the reliability of the representations made and any effect on the report.

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

**.20** Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the review captain should communicate his or her conclusions to the firm at a closing meeting. The closing meeting is normally held via teleconference and may also be attended by representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities. The review captain should discuss the following during the closing meeting:

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report to be issued.
- b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

**.21** An exit conference will be held after the firm has responded to the MFC form(s), FFC form(s), and deficiencies or significant deficiencies in the report and the review captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and is normally held via teleconference. Accordingly, except in rare circumstances that should be explained to the firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the review captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The review captain should discuss the following during the exit conference:



- a. Final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFCs, FFCs, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review captain should also discuss with the firm the implications of these steps on the acceptance and completion of the peer review and the firm's enrollment in the program.
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

**.2022** If the firm receives a FFC form or report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of findings, deficiencies, and significant deficiencies and to appropriately respond. The reviewed firm should address the firm's actions taken or planned to remediate the findings, deficiencies, or significant deficiencies, including timing of the remediation and additional procedures to ensure the finding, deficiency, or significant deficiency is not repeated in the future. The review captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The firm's letter of response should be finalized and dated as of the exit conference date and provided to the review captain. The review captain should include the firm's letter of response with his or her report and working papers submitted to the administering entity. ~~the reviewed firm should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the administering entity's peer review committee and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report. The reviewed firm should submit a copy of the report, and its letter of response, to the administering entity within 30 days of the date it received the report from the review captain or by the firm's peer review due date, whichever date is earlier. Prior to submitting the letter of response to the administering entity, the reviewed firm should submit the response to the review captain for review, evaluation, and comment. If the firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable, and the reviewed firm does not submit a copy of the report to the administering entity.~~

**.2123** The reviewed firm should respond promptly to questions raised in the review in order to assist the review captain in reaching his or her conclusions. ~~The reviewed firm should respond to all matters communicated~~ ~~included~~ on a Matter for Further Consideration (MFC) form, communicated on an FFC form, and deficiencies or significant deficiencies communicated in the peer review report. ~~The reviewed firm should also respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related Finding for Further Consideration (FFC) forms. These responses should describe the plan the reviewed firm has implemented or will implement with respect to each finding. The FFC form also includes the reviewed firm's response that describes how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future. The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the review captain as soon as practicable to allow the review captain sufficient time to assess the firm's response prior to the exit conference. The completed FFC forms should be submitted to the~~

~~review captain no later than two weeks after the review captain's discussion with the reviewed firm regarding the results of the review, or by the peer review due date, whichever is earlier. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity.~~

- .33** Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge the other on such matters. If, after discussion with the review captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter. ~~If the firm still disagrees after contacting the administering entity, the firm's response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~ For more information on disagreements, please review paragraph .116 of section 1000.

## **Appendix D**

### **Timeline of Peer Review Process and Significant Events**

See below for a timeline of the approximate timing of significant events occurring during the peer review process. The timeline is intended to highlight that the peer review process requires an investment of time by both the firm and the reviewer. A brief summary of the guidance for each of the significant events is below. For the complete guidance for each of these events, refer to the Standards and Interpretations.

#### **Enrollment in the Peer Review Program**

By the report date of the firm's first reviewable engagement, a firm should complete and submit the peer review enrollment materials to the administering entity. Once enrolled, a due date for the firm's initial review is assigned, generally 18 months from the report date of the first engagement causing the firm to be enrolled in the program.

#### **Scheduling the Review**

Approximately six to nine months before a firm's review due date, the administering entity will send a firm scheduling form to complete and submit in order for the review to be scheduled. To provide sufficient time to the firm, the peer review should ordinarily be conducted within three to five months after the end of the year to be reviewed. Background information from the completed scheduling forms, such as composition of practice and selected peer reviewer, is entered into an AICPA database accessible by administering entities to determine whether the reviewer is qualified. The administering entity is responsible for approving a reviewer and once approved, the peer review is scheduled, usually within two months after the scheduling forms are received. Approval must be obtained prior to commencement of the review.

#### **Performing the Review**

When all requested documents are received by the reviewer from the reviewed firm, they will be evaluated to determine the appropriate report. A closing meeting will be held in which the reviewer will provide preliminary results of the peer review to include, but not be limited to, matters, findings, deficiencies, and significant deficiencies. The closing meeting may need to occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to matters identified in the review and for the team captain/review captain to assess the impact of the firm's responses on the peer review, if any.

The reviewer will then schedule an exit conference prior to, but no later than, the peer review due date. During the exit conference, the final peer review results will be discussed as well as the process following the exit conference, including Report Acceptance Body (RAB) evaluation and acceptance. The peer reviewer is responsible for submitting the peer review working papers to the administering entity and for issuing the report to the firm within 30 days of the exit conference or by the firm's peer review due date, whichever is earlier. Depending upon the results of the review, for example when there were no matters noted that require follow up by the firm, the closing meeting and exit conference may be the same date.

#### **Administrative and Technical Reviews**

Once the reviewer has completed the review and all materials have been submitted to the administering entity, the working papers will go through an administrative and technical review. The administrative review ensures all required documents from the reviewer are received and complete. During the technical review, the working papers submitted by the reviewer are evaluated to determine whether the review has been conducted in accordance

with the Standards and whether the firm has responded to any matters, findings, deficiencies or significant deficiencies in an appropriate manner.

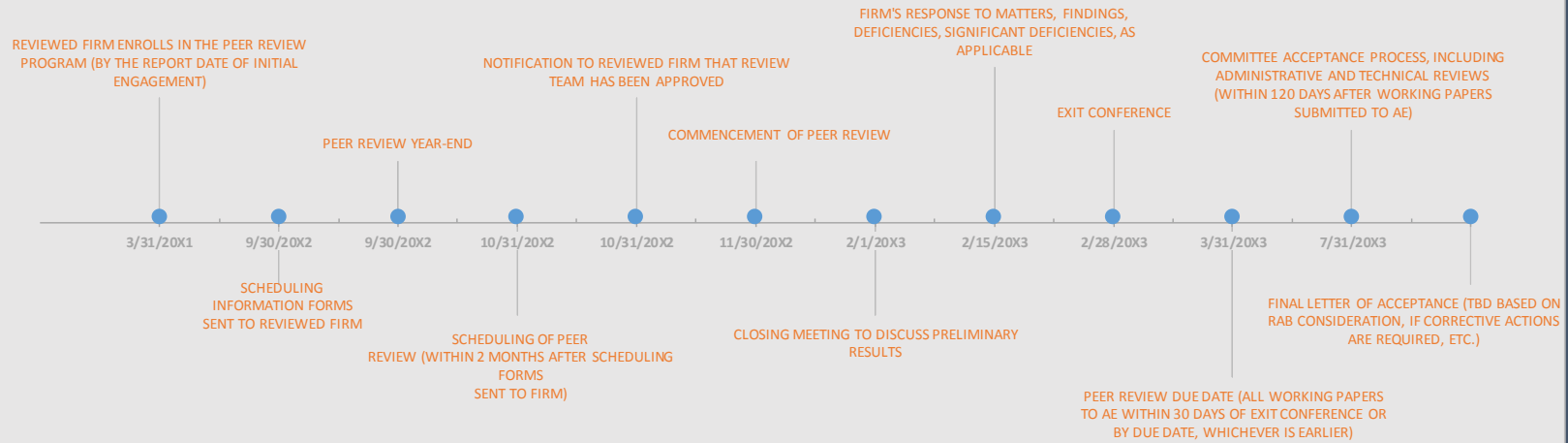
***Review Evaluation, Acceptance, and Completion***

Upon completion of the technical review, reviews are presented for consideration of acceptance at the RAB meeting with attention given to team captain/review captain and technical reviewer recommendations. Peer reviews are presented ordinarily within 120 days after working papers are received by the administering entity. The RAB reviews the report and applicable supporting documentation and determines if the review can be accepted or if additional conditions must be met. If no corrective actions are necessary, the completion date of the review is the acceptance date. If corrective actions are necessary, the review is considered completed when the firm has performed the corrective actions to the RAB's satisfaction.

## Example Timeline of Peer Review Process

AICPA Peer Review Program

### Example Timeline of Peer Review Process



## PRP Section 6200

### *Instructions to Reviewers Performing Engagement Reviews*

#### Engagement Selection

- .09** Prior to the review, the reviewer or the administering entity will ask the reviewed firm to provide summarized information showing the number of the firm's engagements performed under SSARS and engagements performed under the SSAEs, classified into industry categories. That information should be provided for each partner, or individual of the firm if not a partner, who is responsible for the issuance of reports on such engagements. The Engagement Summary Form that will be used for this purpose is located at [paragraph 34](#) of section 6100, *Instructions to Firms Having an Engagement Review*.
- .10** Reviewers should obtain written representations from the firm's management as part of a peer review. The written representation should be addressed to the [review captain \(for example, "To John Smith, CPA" or on committee-appointed review team reviews where appropriate, it may be addressed "To the Review Captain"\)](#) reviewer performing the peer review and dated the [same date the firm submits the list of engagements to the reviewer or the administering entity as the peer review report](#).
- .11** ~~The firm is required to make specific representations as noted in paragraph .208, "Appendix B, Considerations and Illustrations of Firm Representations." Each representation must be included in the representation letter. The firm is not prohibited from making additional representations, including indicating that a specific condition does not exist. The representations should be addressed to the review captain (for example, "To John Smith, CPA" or on committee appointed review team reviews where appropriate, it may be addressed "To the Review Captain") and dated the same date as the report. The written representations should be presented on firm letterhead and signed by individual members of management whom the reviewer or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (this should not be a firm signature) . Such members of management normally include the managing partner and the partner in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the review captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report. Reviewers should obtain the representations as evidential matter that management is not aware of any situations where either it or its personnel have not complied with state board(s) of accountancy or other regulatory bodies' rules and regulations, including, among others, applicable firm and individual licensing requirements in each state in which the firm practices for the year under review, or have notified the peer reviewer of such situations, have made available to the reviewer communications as stipulated in paragraph .208 of section 1000, have provided the reviewer with a list of all client engagements with periods ended during the year under review, and have provided the reviewer with any other information requested by the reviewer. For financial forecasts or projections and agreed upon procedures, the list includes those with report dates during the year under review.~~

#### General Guidelines for Writing Reports

- .31** The report should be addressed to the partners (or other appropriate terminology) of the reviewed firm and the administering entity peer review committee and should be dated as of the date of the [exit conference completion of the peer review procedures](#).

- .32 The report should normally use plurals such as “we have reviewed,” including CART reviews. The singular—“I have reviewed”—is appropriate only when the reviewed firm has engaged a sole practitioner to perform its review.
- .33 For illustrative examples of various Engagement Review reports, please refer to the [appendixes](#) in section 1000, which also include examples of deficiencies ~~and recommendations~~ included in reports with a peer review rating of *pass with deficiencies* and *fail*.
- .34 For [additional guidance and](#) examples of writing deficiencies ~~and recommendations~~ included in Engagement Review reports with a peer review rating of *pass with deficiencies* or *fail*, see [section 6250](#), [Guidance for Writing Deficiencies and Significant Deficiencies Included in Engagement Review Reports](#) ~~Examples of Deficiencies That Might Be Included in an Engagement Review Report~~.
- .35 An optional checklist is included in appendix B to assist reviewers in determining if the report contains all the appropriate language and elements.
- .36 A report with a peer review rating of *pass with deficiencies* is issued when at least one but not all of the engagements submitted for review contain a deficiency.

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

- ~~.37 The criteria for identifying matters, findings, deficiencies, and significant deficiencies for Engagement Reviews are discussed in paragraphs .110–.119 of section 1000. This section assumes that the review captain has already made the determination that a deficiency or significant deficiency exists.~~

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

- ~~.38 A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant’s reports, or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.~~
- ~~.39 A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review. When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.~~

### **~~Points to Consider When Writing Deficiencies or Recommendations to Be Included in an Engagement Review Report With a Rating of *Pass With Deficiencies* or *Fail*~~**

- ~~.40 On an Engagement Review, the deficiencies in the report should be written with an “engagement” orientation and include the following:~~



- ~~a. What did the peer review disclose (ordinarily an engagement that fails to comply with professional standards in all material respects)? What was the failure to comply with professional standards in all material respects?~~
- ~~b. An identification of the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific. For example, when there are numerous generic disclosure deficiencies then the industry and level of service wouldn't be specifically identified. However, if the deficiencies are related to a specific industry (such as those unique to the construction contractor industry), then the industry and level of service would be identified.~~
- ~~c. Using the term *significant deficiencies* as a caption before all of the identified deficiencies only when a report with a peer review rating of *fail* is issued.~~
- ~~d. "Closing the loop" (optional), which is ordinarily the last sentence (except for item *e* that follows, when applicable) when writing the deficiency. Although not required on an Engagement Review, this sentence can explain the firm's actions on engagements deemed not to comply with professional standards in all material respects. Examples of "closing the loop" may include, but are not limited to the following:
 
  - ~~(1) The reports on these financial statements have been recalled, and the financial statements are being revised.~~
  - ~~(2) As a result of this omitted documentation, the firm performed the necessary additional documentation procedures to provide a satisfactory basis for issuing its report.~~~~
- ~~e. If any of the current deficiencies or significant deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, then that fact should be identified by stating, "This deficiency was noted in the firm's previous peer review." (See Interpretation 96n-1, "Reporting on System and Engagement Reviews When a Report With A Peer Review Rating of Pass With Deficiency or Fail is Issued," of paragraph .96 in section 1000, "Standards for Performing and Reporting on Peer Reviews" (sec. 2000, "Peer Review Standards Interpretations," question 96n-1.)~~

~~41 On an Engagement Review, written deficiencies should avoid~~

- ~~a. including personal preferences. Deficiencies should be based on professional standards. Reviewers are occasionally surprised to find that some generally accepted professional standards are, in reality, only a preferred treatment by their firm.~~
- ~~b. identifying the firm's policies and procedures.~~
- ~~c. referencing specific individuals, offices, or third party practice aides.~~
- ~~d. using undefined acronyms such as GAAP, CPE, or FASB.~~
- ~~e. identifying the exact number or frequency of occurrence. Terms such as *in some instances* or *frequently* should be used in a written deficiency.~~
- ~~f. identifying references to specific technical standards, unless it is critical to the understanding of the deficiency, in which case the deficiency should be written in a sufficient and succinct manner~~



~~describing the technical standards in the proper context. Otherwise, the use of the general term *professional standards* should be used in a written deficiency.~~

~~.42 Recommendations that follow the deficiencies or significant deficiencies included in the report should be very specific and not a reiteration of the deficiency or significant deficiency. Recommendations should focus on what the firm can do in order to prevent the deficiency from recurring. Care should be taken not to overemphasize the use of standardized forms and checklists as a recommendation for improving the firm's system of quality control. Recommendations may exceed what is required by professional standards but if such a recommendation is being made, it should indicate so.~~

### ~~Other Considerations~~

~~.432 An optional checklist is included in appendix C, "Checklist for Reviewing Drafts of Deficiencies and Significant Deficiencies Included in Engagement Review Reports."~~

## Completion of the Review

- ~~.443~~
- ~~.37~~ Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the review captain should communicate his or her conclusions to the firm at a closing meeting. The closing meeting is normally held via teleconference and may also be attended by representatives of the administering entity, the board, AICPA staff, or other board authorized organizations with oversight responsibilities. The review captain should discuss the following during the closing meeting:
- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report to be issued.
  - b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
  - c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.
- ~~.38~~ An exit conference will be held after the firm has responded to the MFC form(s), FFC form(s), and deficiencies or significant deficiencies in the report and the review captain has assessed whether the responses are appropriate and has considered any additional impact to the peer review results, and is normally held via teleconference. Accordingly, except in rare circumstances that should be explained to the firm, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the firm sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the review captain with sufficient time to assess the firm's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The review captain should discuss the following during the exit conference:

- a. Final peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFCs, FFCs, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review captain should also discuss with the firm the implications of these steps on the acceptance and completion of the peer review and the firm's enrollment in the program.
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations). Within 30 days of the exit conference review captain's discussion with the reviewed firm regarding the results of the review or by the firm's peer review due date, whichever date is earlier on an Engagement Review, the reviewer should furnish the reviewed firm with a written report and remind the reviewed firm of the following:
- ~~a. If the firm receives an FFC or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of findings, deficiencies, and significant deficiencies. The report should be sent, along with an appropriate response, if applicable, by the reviewed firm to the administering entity within 30 days of the date it receives the report from the review captain or by the firm's peer review due date, whichever date is earlier.~~
- ~~b. The letter of response, if applicable, should be addressed to the administering entity's peer review committee, and should describe the actions planned (including timing) or taken by the reviewed firm with respect to each deficiency in the report.~~
- ~~c. The review captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The firm's letter of response should be finalized and dated as of the exit conference date and provided to the review captain. Prior to submitting the letter of response to the administering entity, the reviewed firm should submit the response to the review captain for review, evaluation, and comment. If the firm receives a report with a peer review rating of *pass* or *pass (with a scope limitation)*, a letter of response is not applicable and the reviewed firm does not submit a copy of the report to the administering entity.~~
- ~~d. The reviewed firm should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should address the firm's actions taken or planned to remediate the findings, including timing of the remediation describe the plan the reviewed firm has implemented or will implement with respect to each finding. The review captain should review and evaluate the responses on the FFC forms before they are submitted to the administering entity. The FFC form is a standalone document that includes the reviewer's recommendation. The FFC form also includes the reviewed firm's response that describes how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future.~~
- .44539** Within 30 days of the exit conference completion date or by the firm's peer review due date, whichever date is earlier on an Engagement Review, the reviewer should ~~also~~ submit a copy of the documents listed in [appendix D](#), "Index for Engagement Review Working Papers," to the administering entity. Copies of the financial statements that were reviewed and the documentation provided by the reviewed firm should not be included in the working papers; they either should be destroyed or returned to the reviewed firm.

**.45640** Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge the other on such matters. If, after discussion with the review captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter. ~~If the firm still disagrees after contacting the administering entity, the firm’s response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~ For more information on disagreements, please review [paragraph .98](#) of section 1000.

**.46741** It is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, ~~the~~ AICPA Peer Review Board encourages the reviewed firm to work with the review captain to develop remedial actions~~recommendations~~ that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the peer review. Experience shows that improvement is more likely to occur when the letter of response describes specific actions to be taken. Therefore, a response limited to the firm’s comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

## Appendix B

### Checklist for Reviewing Drafts of Engagement Review Reports

**.489**

	N/A	Yes	No <sup>fn 1</sup>
1. Does the report (as required by <a href="#">section 1000</a> , <i>Standards for Performing and Reporting on Peer Reviews</i> )			
a. state at the top of the report the title “ <u>Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed Engagement Review Report</u> ”?			
b. <u>Include headings for each of the following sections:</u>			
a. <u>Firm’s Responsibility</u>			
b. <u>Peer Reviewer’s Responsibility</u>			
c. <u>Deficiency(ies) or Significant Deficiency(ies) Identified on the Firm’s Conformity With Professional Standards on Engagements Reviewed, if applicable.</u>			
d. <u>Scope Limitation, if applicable</u>			
e. <u>Conclusion</u>			
<b><del>c</del></b> . state that the review <del>captain</del> reviewed selected accounting engagements of the firm and include the year-end covered by the peer review?			

<sup>fn 1</sup> All “no” answers should be resolved before the report is finalized.

- de.* state that the peer review was conducted in accordance with *Standards for Performing and Reporting on Peer Reviews* established by the Peer Review Board of the AICPA?
- e.* State that the nature, objectives, scope, limitations of, and procedures performed in an Engagement Review areas described in the sStandards can be found on the AICPA website where the Standards are summarized.
- fd.* state that the firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, where appropriate, and for remediating weaknesses in its system of quality control, if any.?
- ge.* 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?
- hf.* state that an Engagement Review does not include reviewing the firm’s system of quality control and compliance therewith and, accordingly, the reviewer expresses no opinion or any form of assurance on that system?
- g.* ~~state that the nature, objectives, scope, limitations of, and procedures performed in an Engagement Review are described in the standards?~~
- h.* ~~include a URL to the AICPA website where the standards are located?~~
- i.* 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 conclusion, as appropriate, to address the scope limitation.
- ji.* identify the different peer review ratings that a firm could receive?
- k.* In a report with a peer review rating of *pass*, are all applicable elements included? Does the report state
- that nothing came to the reviewer’s attention that caused the reviewer to believe that the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects?
  - That the firm has received a peer review rating of *pass*?

- l.    In a report with a peer review rating of *pass with deficiencies*, are all applicable elements included? Does the report state
- That as a result of the deficiencies previously described, the review captain believes that at least one but not all of the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.
  - That the firm has received a peer review rating of *pass with deficiencies*.
- m.    In a report with a peer review rating of *fail*, are all applicable elements included? Does the report state
- That as a result of deficiencies previously described, the reviewer believes that engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects?
  - That the firm has received a peer review rating of *fail*.
2.    ~~In a report with a peer review rating of *pass*, are all applicable elements included? Does the report~~
- ~~a.    state that nothing came to the reviewer's attention that caused the reviewer to believe that the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects?~~
  - ~~b.    state at the end of the second paragraph that "therefore the firm has received a peer review rating of *pass*"?~~
  - ~~c.    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?~~
  - ~~d.    exclude findings, deficiencies, significant deficiencies, and recommendations?~~
3.    ~~In a report with a peer review rating of *pass with deficiencies*, are all applicable elements included? Does the report~~
- ~~a.    state that except for the deficiencies previously described, nothing came to the reviewer's attention that caused the reviewer to believe that the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects?~~
  - ~~b.    state at the end of the last paragraph that "therefore the firm has received a peer review rating of *pass with deficiencies*"?~~
  - ~~c.    include descriptions of the deficiencies and the reviewing firm's recommendations, each of which should be numbered (also see appendix C, "Checklist for Reviewing Drafts of Deficiencies and Significant Deficiencies")?~~

- ~~d. include a caption before the deficiencies that states “we noted the following deficiencies during our review:”?~~
- ~~e. 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?~~
- ~~f. identify any deficiencies that were also made in the report in the firm’s previous peer review?~~
- ~~g. identify the level of service for any deficiencies? If the deficiency was industry specific, does the report identify the industry?~~
4. ~~In a report with a peer review rating of fail, are all applicable elements included? Does the report~~
- ~~a. state that as a result of deficiencies previously described, the reviewer believes that engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects?~~
- ~~b. state at the end of the last paragraph that “therefore the firm has received a peer review rating of fail”?~~
- ~~c. include descriptions of the significant deficiencies and the reviewing firm’s recommendations, each of which should be numbered (also see appendix C)?~~
- ~~d. include a caption before the significant deficiencies that states “we noted the following significant deficiencies during our review:”?~~
- ~~e. 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?~~
- ~~f. identify any deficiencies or significant deficiencies that were also made in the report in the firm’s previous peer review?~~
- ~~g. identify the level of service for any significant deficiencies? If the significant deficiency was industry specific, does the report identify the industry?~~
- n. In a report with a peer review rating of pass with deficiencies or fail, are all applicable elements included?
- Descriptions of the deficiencies or significant deficiencies (each of these should be numbered).
  - Identify any deficiencies or significant deficiencies 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 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.

- Identify the level of service for any deficiencies or significant deficiencies. If the deficiency or significant deficiency is industry specific, also identify the industry.

5. Is the date of the report the date of the exit conference completion of the peer review procedures?
6. For firm-on-firm reviews and association formed review teams, is the report issued on the review captain firm’s letterhead and signed in the review captain firm’s name?
7. For Committee Appointed Review Team reviews, is the report issued on the administering entity’s letterhead and signed by the individual reviewer as “review captain”?
8. Does the report use the correct terminology such as “we have reviewed”—even if the review team consists of only one person unless the review captain is a sole practitioner in which case —”I have reviewed” is appropriate?

## Appendix C

### Checklist for Reviewing Drafts of Deficiencies and Significant Deficiencies Included in Engagement Review Reports

.4950

1. Are comments written with an engagement rather than a systemic orientation?
2. Have personal preferences been excluded from the deficiency?
3. Have the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific been identified?
4. Do the deficiencies avoid identifying, by name or otherwise, specific engagements, individuals, or offices?

<sup>fn 1</sup> All “no” answers should be resolved before the report is finalized.



5. Are general terms used to indicate frequency of occurrence rather than specific numbers?
6. Are the deficiencies free from using undefined acronyms such as GAAP, CPE or FASB?
7. Are deficiencies written in a specific enough manner so that they will not automatically be identified as a repeat on the next review?
8. Are the deficiencies free of identifying references to specific technical standards, unless they are critical to the understanding of the deficiency, in which case the deficiency should be written in a sufficient and succinct manner describing the technical standards in the proper context? Otherwise, the use of the general term *professional standards* should be used.
9. Has the reviewed firm identified appropriate remediations—~~“loop been closed”~~—where engagements have been identified as not being performed in accordance with professional standards in all material respects ~~(optional and not required)~~?
10. Are current deficiencies that were also identified on the previous peer review(s), whether in the report or FFCs, noted as such by stating “this deficiency was noted in the firm’s previous peer review(s)”?
11. ~~Are recommendations that follow the deficiencies or significant deficiencies included in the report very specific and not a reiteration of the deficiency or significant deficiency? Recommendations should focus on what the firm can do in order to prevent the deficiency from recurring. Recommendations may exceed what is required by professional standards but if such a recommendation is being made, it should indicate so.~~
12. ~~Have any third party practice aids been referred to in general terms in the recommendations?~~



## PRP Section 6250

### Guidance for Writing Deficiencies and Significant Deficiencies Included in Engagement Review Reports~~Examples of Deficiencies That Might Be Included in an Engagement Review Report~~

#### Notice to Readers

These examples have been developed by the AICPA Peer Review Board to provide peer reviewers with assistance in writing deficiencies and significant deficiencies. The examples included in this section are for illustrative purposes only and assume that the review captain has already followed the standards, interpretations, and other guidance in determining that findings identified have met the threshold for being a deficiency (to be included in a report with a rating of *pass with deficiencies*) or significant deficiencies (in a report with a rating of *fail*). Actual deficiencies and significant deficiencies should be prepared based on the specific facts and circumstances.

These are examples of deficiencies that might be included in an Engagement Review report with a peer review rating of *pass with deficiencies* or significant deficiencies in an Engagement Review report with a peer review rating of *fail*. The examples are not intended to suggest that all of them would occur on a single Engagement Review.

~~An Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice. Accordingly, recommendations to improve a firm's system of quality control can be made after considering the firm's responses on the matter for consideration forms or discussions the reviewer had with the firm concerning why the deficiencies or significant deficiencies occurred. The firm's responses or discussions may lead the reviewer to make a recommendation to improve the firm's system of quality control.~~

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

.01 The criteria for identifying matters, findings, deficiencies, and significant deficiencies for Engagement Reviews are discussed in paragraphs .110–.119 of section 1000. This section assumes that the review captain has already made the determination that a deficiency or significant deficiency exists.

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

.02 A deficiency is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports, or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.

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

**Points to Consider When Writing Deficiencies or Significant Deficiencies to Be Included in an Engagement Review Report With a Rating of *Pass With Deficiencies* or *Fail***

.04 On an Engagement Review, the deficiencies in the report should be written with an “engagement” orientation and include the following:

- a. What did the peer review disclose (ordinarily an engagement that fails to comply with professional standards in all material respects)? What was the failure to comply with professional standards in all material respects?
- b. An identification of the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific. For example, when there are numerous generic disclosure deficiencies then the industry and level of service wouldn't be specifically identified. However, if the deficiencies are related to a specific industry (such as those unique to the construction contractor industry), then the industry and level of service would be identified.
- c. Using the term *significant deficiencies* as a caption before all of the identified deficiencies only when a report with a peer review rating of *fail* is issued.
- d. If any of the current deficiencies or significant deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, then that fact should be identified by stating, “This deficiency was noted in the firm's previous peer review.” (See Interpretation 96n-1, “Reporting on System and Engagement Reviews When a Report With A Peer Review Rating of *Pass With Deficiency* or *Fail* is Issued,” of paragraph .96 in section 1000, “Standards for Performing and Reporting on Peer Reviews” (sec. 2000, “Peer Review Standards Interpretations,” question 96n-1.)

.05 On an Engagement Review, written deficiencies should avoid

- a. including personal preferences. Deficiencies should be based on professional standards. Reviewers are occasionally surprised to find that some generally accepted professional standards are, in reality, only a preferred treatment by their firm.
- b. identifying the firm's policies and procedures.
- c. referencing specific individuals, offices, or third party practice aides.
- d. using undefined acronyms such as GAAP, CPE, or FASB.
- e. identifying the exact number or frequency of occurrence. Terms such as *in some instances* or *frequently* should be used in a written deficiency.
- f. identifying references to specific technical standards, unless it is critical to the understanding of the deficiency, in which case the deficiency should be written in a sufficient and succinct manner

describing the technical standards in the proper context. Otherwise, the use of the general term *professional standards* should be used in a written deficiency.

## Other Considerations

.06 An optional checklist is included in appendix C, “Checklist for Reviewing Drafts of Deficiencies and Significant Deficiencies Included in Engagement Review Reports.”

## Examples of Deficiencies and Significant Deficiencies

### .07

1. **Deficiency**—On a review engagement of a manufacturing client, we noted that the accompanying accountant’s report was not appropriately modified. ~~When the financial statements did not appropriately present or disclose matters in accordance with industry standards. 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 (CPE) 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 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 noted 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.~~

3. **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 Statements on Standards for Accounting and Review Services (SSARSs). 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. 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 CPE 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 preissuance review of the engagement by an individual not associated with the engagement prior to issuance.~~

4. **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.<sup>fn 1</sup> 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.~~

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

~~**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.~~

- ~~6. **Deficiency**—During our review of the financial statements for a compilation engagement 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.~~

- ~~7. **Deficiency**—During our review, we noted the firm did not modify its compilation reports to reflect that management has elected to omit substantially all disclosures. 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 that management has elected to omit substantially all disclosures. A memorandum should then be prepared highlighting the~~

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

~~changes to be made in the current year and placed in the files of the client for whom a report must be changed.~~

87. **Deficiency**—During our review, we noted that for the last few months of the peer review year that the sole practitioner did not have his individual license to practice public accounting as required by his state board of accountancy. As a result, the practitioner did not have his individual license for some of the engagements we selected for the peer review. Subsequently, the practitioner obtained the appropriate license.

~~**Recommendation**—We recommend that the firm ensure that its written quality control policies and procedures document include a section on firm and individual licensing requirements and that the sole practitioner review the document periodically to ensure he is in compliance with the applicable licensing requirements.~~

8. **Deficiency**—During our review of the firm’s engagement to prepare financial statements, we noted the firm did not obtain an engagement letter signed by both the firm and the client’s management.

**PRP Section 6300**

*Review Captain Summary*

**REVIEW CAPTAIN SUMMARY**

Reviewed Firm’s Name

\_\_\_\_\_

Firm Number

\_\_\_\_\_

Review Number

\_\_\_\_\_

Peer Review Year End

\_\_\_\_\_

On what date was the Engagement Review completed?

\_\_\_\_\_

When was the report submitted to the reviewed firm?

\_\_\_\_\_

What was the general nature of the report?

\_\_\_\_\_

Did the report have a scope limitation? Yes No

How many Matter for Further Consideration (MFC) forms were issued to the firm?

\_\_\_\_\_

How many Finding for Further Consideration (FFC) forms were issued to the firm?

\_\_\_\_\_

Review Captain

\_\_\_\_\_

Date

\_\_\_\_\_

**GENERAL NATURE OF REPORT CODES:**

- 1. Pass
- 3. Pass with deficiency(ies)
- 7. Fail

## INSTRUCTIONS

- .01** The checklist steps should normally be completed in the order presented. Place an “X” in the appropriate column to indicate the step has been completed or if the step is not applicable.
- .02** Questions regarding the use of this checklist, any other materials, or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.
- .03** This checklist must be completed on engagement reviews and submitted to the administering entity, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review or by an authorized association of CPA firms.
- .04** The reviewer can make additional comments in the Notes section ([sec. VI](#)), as necessary. The reviewer should reference the question number related to each comment. If additional space for comments is needed, additional documents can be submitted. Items to be discussed at the closing meeting and exit conference should be noted in this section.
- .05** After reviewing the selected engagements and discussing the findings with the reviewed firm, the Engagement Statistics Data Sheet ([sec. VII](#)) should be completed. This form should be completed based on the following guidance.
- .06** [Part I](#) asks for information concerning the number of engagements reviewed and the number of engagements not performed and reported on in conformity with applicable professional standards in all material respects. This ordinarily occurs when deficiencies, individually or in aggregate, exist that are material to understanding the report or the financial statements accompanying the report, or represent omissions of a critical accounting or attestation procedure required by professional standards. See [appendix E](#), "Areas of Common Noncompliance With Applicable Professional Standards," of section 6200.
- .07** When deficiencies are encountered on a review, rReference should be made to SSARS No. 19, Framework for Performing and Reporting on Compilation and Review Engagements (AICPA, Professional Standards, AR secs. 60, 80, and 90), or SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification (AICPA, Professional Standards, AR-C secs. 60, 70, 80, and 90), as applicable, paragraph .48 of AR section 100 and paragraphs .13–.14 of AR section 9100, Compilation and Review of Financial Statements (AICPA, Professional Standards), when deficiencies are encountered on a review. These sections also suggest that the guidance in the following sections be considered in these circumstances:
- Compilations. AR section 80 paragraphs .47–.52, Subsequent Discovery of Facts Existing at the Date of the Report (AICPA, Professional Standards)
  - Reviews. AR section 90 paragraphs .54–.59, Review of Financial Statements (AICPA, Professional Standards)
- .08** [Part II](#) asks the reviewer to describe the reasons why he or she concluded that one or more engagements were not performed and/or reported on in conformity with applicable professional standards in all material respects. If the reviewer indicates in part I that any engagements were considered to have not been performed and/or reported on in conformity with applicable professional standards in all material respects, then [part II](#) should describe why each engagement was deemed as such.



**.09** To assist the reviewer in noting the applicable reasons, three reason codes have been provided:

1. GAP should be used to indicate that the financial statements or footnotes, or both, are not in accordance with generally accepted accounting principles (GAAP) or, if applicable, a special purpose framework.<sup>fn 1</sup>
2. SAR should be used to indicate that the report or the documentation requirements, or both, were not in accordance with the Statements on Standards for Accounting and Review Services.
3. ATT should be used to indicate that the report or the documentation requirements, or both, were not in accordance with the Statements on Standards for Attestation Engagements.

**.10** After entering the reason code, the reviewer should provide a brief description of the deficiency noted.

~~**.11** Part II also asks the reviewer to indicate the actions that the reviewed firm has taken or plans to take with respect to each engagement not performed and/or reported on in conformity with applicable professional standards. If the reviewer indicates in part I that there are three such engagements, then part II should include a description of the actions taken or to be taken on each of those three engagements.~~

~~**.12** To assist the reviewer in noting the actions taken or to be taken by the reviewed firm and to reduce the amount of writing, eight action codes are set forth on the data sheet. A comment field has been provided in the event that the reviewer wishes to provide additional information or to describe an action which is not covered by the eight action codes provided. If a reviewer can use one of the eight action codes provided and has no other comments, the comments section does not have to be completed.~~

~~**.13** Under the professional standards cited under the explanation in part I, the major factor to be considered when evaluating what actions should be taken on engagements not performed and/or reported on in conformity with professional standards is whether or not there are persons currently relying on or are likely to rely on the report and financial statements that have been issued. When persons are currently relying on or are likely to rely on a report and financial statements that have been issued, professional standards suggest that~~

- ~~• the firm promptly undertakes to apply the omitted procedure or alternative procedures that would provide a satisfactory basis for its report.~~
- ~~• the firm should issue a revised report and financial statements as soon as practicable; ordinarily, the reason for the revision should be described in a note to the financial statements and referred to in the report.~~

~~**.14** If the issuance of financial statements of the subsequent period is imminent, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements so that disclosure of the information is not delayed. Before any action is taken on the part of the reviewed firm with respect~~

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



~~to engagements not performed and/or reported on in conformity with applicable professional standards, the professional standards suggest that an attorney be consulted. The AICPA Peer Review Board has concluded that actions taken, if any, on engagements not performed and/or reported on in conformity with applicable professional standards are the firm's decision. The reviewer may be consulted, but he or she cannot compel the firm to take specific actions.~~

.15 [Part III](#) asks for a list of any engagement(s) that the reviewed firm asked the reviewer not to review and the reasons why the reviewed firm made such a request. On an Engagement Review, such requests will be rare. If this occurs, the reviewer should consider issuing a report with a scope limitation.

## PLANNING AND PERFORMING

	<u>Completed</u>	<u>Not Applicable</u>
<b>I. Prior to Accepting Peer Review Client:</b>		
1. Determine that the reviewing firm, the review team, and any other individuals who participate on the peer review are independent and free from any obligation to, or interest in, the reviewed firm or its personnel.		
2. Determine your capability to perform a peer review:		
• Obtain and consider information about the firm to be reviewed, including size, nature of practice, industry specializations, and levels of service compared to your firm		
• Determine availability of peer reviewers with appropriate levels of expertise and experience to perform the review		
• Determine that all team members meet the qualifications to perform a peer review		
3. Consult with the administering entity concerning any of the following matters which may affect your ability to perform the peer review:		
• If any proposed peer review team members have received any communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of a peer reviewer or reviewing firm's accounting and auditing practice, and notifications of limitations or restrictions on a peer reviewer or reviewing firm to practice		

- If you or your firm performed inspection, engagement review, quality control consulting, or other monitoring activities to the firm during the peer review year or the immediately preceding year

## II. Planning the Review:

4. Communicate with the firm about the peer review timing, responsibilities, and administrative matters:
  - Confirm the firm's ability to support electronic MFC form completion (as applicable), and that it registered.
  - Discuss with firm management the recent clarification of noncooperation provisions regarding the omission or misrepresentation of the firm's accounting and auditing engagements. Ensure that the firm understands its responsibility for confirming in the representation letter the completeness of the engagement listing provided. Emphasize that failure to properly include engagements on the list could be deemed as failure to cooperate. This may result in termination from the peer review program and referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA *Code of Professional Conduct* (see [Interpretation No. 5h-1](#)).
  - Discussions should be with members of management whom the review captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control.
  - Confirm that the firm did not perform any engagements under Statements on Auditing Standards (SASs), *Government Auditing Standards*, examinations under Statements on Standards for Attestation En-

gagements (SSAEs), or engagements performed under PCAOB standards. If the firm performed engagements under any of these standards, a *system review* will be required.

- The Engagement Summary Form or engagement listing provided by the firm should include engagements with periods ending during the year under review whether issued or not.
- If there is a significant difference between the firm's scheduling information and the Engagement Summary Form or the engagement listing provided by the firm, document the situation, including any consultation with the administering entity.
- Obtain the representation letter from the reviewed firm. The letter should be dated the date that the firm submits the list of engagements to the review captain.
- If the firm has had an acquisition of another practice or portion thereof, or divestiture of a significant portion of its practice, including the sale of any portion of the firm's non-attest practice to a non-CPA owned entity during or subsequent to the peer review year, consult with the administering entity prior to the commencement of the review to determine the appropriate scope of the review and other actions that should be taken.
- Discuss with the firm any allegations or investigations of deficiencies (including litigation) in the conduct of an accounting, audit, or attestation engagement performed and/or reported on by the firm, whether the issues relate to the firm or its personnel within the three years preceding the firm's current peer review year-end.
- Inquire whether the firm and its personnel are appropriately licensed as required by the state board(s) of accountancy in the

state(s) in which the firm and its personnel practice.

- Obtain documentation of the firm license in the state in which the practice unit is domiciled (main office is located). The license should have been active during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork.
- If any exception was noted, the review captain should add an addendum to the Review Captain Summary explaining the effect on the firm's accounting practice and on the performance of the review.
- If the firm does not have the applicable license(s) for the period when the engagements selected for review were issued, the representation letter should be tailored to provide information on the areas of noncompliance. An MFC should also be created and elevated to an FFC .

5. Read recent Peer Review Alerts and those applicable to the types of engagements that will be reviewed (such as those that assist with the review of and conclusion on engagements performed under SSARS)

56. Obtain the results of the prior peer review from the firm or administering entity (see AICPA Standards for Performing and Reporting on Peer Reviews (sec. 1000) (Standards) paragraph .106) consider whether the issues discussed in those documents require additional emphasis in the current review. Documents to be obtained include the prior peer review::

- Prior peer review rReport
- The letter of response, if applicable
- The letter of acceptance, all from the reviewed firm

- ~~Obtain the prior~~ FFC forms, if applicable ~~(from the administering entity if the review captain's firm did not perform the prior peer review)~~
- ~~Consider whether the issues discussed in those documents require additional emphasis in the current review~~
- Firm representation letter

67. Select the engagements for review (see Standards [paragraphs .104-.105](#)):

- The engagement listing should include engagements that have periods ended during the peer review year. For financial forecasts or projections and agreed upon procedures, the list should include engagements that have report dates during the year under review.
- One engagement should be selected from each of the following areas of service performed by the firm:
  - Review of historical financial statements (performed under Statements on Standards for Accounting and Review Services [SSARSs])
  - Compilation of historical financial statements, with disclosures (performed under SSARS)
  - Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
  - Engagements performed under the SSAEs other than examinations
- One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports previously listed.

- Selection of preparation engagements should only be made in the following instances:
  - One preparation engagement with disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included above or when the firm's only engagements with disclosures are preparation engagements
  - One preparation engagement that omits substantially all disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included above or when the firm's only omit disclosures engagements are preparation engagements
  - One preparation engagement should be selected if needed to have at least two engagements selected for review
- Ordinarily, at least two engagements should be selected for review.
- The preceding criteria are not mutually exclusive. The objective is to ensure that one engagement is selected for each partner and one engagement is selected from each of the areas of service performed by the firm listed in the previous list. Therefore, one of every type of engagement that a partner, or individual if not a partner, responsible for the issuance of the reports listed in the previous list performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in the previous list performed by the firm are covered.
- There is a presumption that all engagements otherwise subject to the peer review

will be included in the scope of the review:

- In the rare situations when exclusions or other limitations on the scope of the review are being contemplated, a review captain should carefully consider the implications of such exclusion.
- This includes communicating with the firm and the administering entity the effect on the review and on the ability of the review captain to issue a peer review report.

**78.** Request the firm to provide (see Standards [paragraph .107](#)):

- A copy of the financial statements or information and the accountant's report, specific background information, representations about each engagement, and the firm's documentation required by applicable professional standards. The client's name may be masked and assigned a code number.
- A completed engagement questionnaire that includes engagements within the peer review year-end (section 6100 [appendix B, Engagement Questionnaire](#)).

### **III. Performing the Review:**

**89.** Perform any procedures deemed necessary to conclude that nothing came to your attention that caused you to believe that the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. An Engagement Review includes the following (see Standards [paragraph .108](#)):

- Consideration of the financial statements or information and the related accountant's report on the compilation, review, and preparation engagements performed under SSARS and engagements performed under SSAEs.

- Consideration of the documentation on the engagements performed via reviewing the *Engagement Questionnaire*, representations made by the firm, and inquiries.
- Review of all other documentation required by applicable professional standards on the engagements.
- Complete supplemental checklists for all required engagements submitted for review. If supplemental checklists are not completed, provide explanation in the notes section.
- Document within the notes section of this Summary (Item VI), consultation with the Issue Resolution Hotline and/or the Administering Entity, if applicable.
- Obtain documentation of individual licenses for practitioners in charge of engagements reviewed in the state in which the individual(s) primarily practice public accounting. The license(s) should have been active during the peer review year and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork.
  - If any exception was noted, the review captain should add an addendum to the Review Captain Summary explaining the effect on the firm's accounting practice and on the performance of the review.
  - If the practitioner does not have the applicable license(s) for the period when the engagements selected for review were issued, the representation letter should be tailored to provide information on the areas of noncompliance. An MFC should also be created and elevated to a deficiency or significant deficiency, as applicable.

**910.** Determine the relative importance of matters (see Standards [paragraphs .110–.111](#)):



- A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards.
  - The evaluation includes reviewing the financial statements or information, the related accountant’s reports, and the adequacy of procedures performed, including related documentation.
  - Matters are typically one or more “No” answers to questions in peer review questionnaire(s).
  - A matter is documented on a Matter for Further Consideration (MFC) form.
  
- A *finding* is one or more matters that the review captain has concluded result in financial statements or information, the related accountant’s reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards:
  - A review captain will conclude whether one or more findings are a deficiency or significant deficiency.
  - If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate.
  - A finding not rising to the level of a deficiency or significant deficiency is documented on a FFC form.

- A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information and/or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects:
  - When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review:
  - When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.

~~4011~~. Consider the need for MFC forms, Disposition of MFC (DMFC) forms, and any related FFC forms:

- If no MFC form(s) are necessary, indicate as such in PRISM.
- Access PRISM to prepare a MFC form to document all possible matters on the engagements or other items that require additional information or explanation of

facts from the reviewed firm. Obtain the firm's response to each MFC.

- The MFC and FFC forms are subject to review and oversight by the administering entity:
  - If a matter in a MFC form is elevated to a deficiency or significant deficiency, it is communicated in the report itself, ~~along with the reviewer's recommendation.~~
  - Firm submits letter of response regarding actions planned or taken and the timing of those actions by the firm, which is evaluated for appropriateness and responsiveness.
- Obtain the firm's response to each FFC form in writing and indicate the response and resolution on the FFC form:
  - The reviewed firm's response should describe ~~how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation)~~ the actions planned or taken to remediate the finding; the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future.
  - Administering entity, after the review captain has reviewed and evaluated, will evaluate FFC form responses for appropriateness and responsiveness, and determine if any further action is necessary.

124. Form conclusions on the type of report to issue (see Standards [paragraphs .117-.119](#)):

- A report with a peer review rating of *pass* is issued when the reviewer concludes that nothing came to his or her attention that

caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.

- There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, or significant deficiencies, ~~or recommendations~~.
  - In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.
- A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.
    - The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards.
    - A report with a peer review rating of *pass with deficiencies* is issued when at least one, but not all, of the engagements submitted for review contain a deficiency.

- In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.
- A report with a peer review rating of *fail* is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects.
  - A report with a peer review rating of *fail* is issued when deficiencies are evident on all of the engagements submitted for review.
  - The review captain should not expand scope beyond the original selection of engagements in an effort to change the conclusion from a peer review rating of *fail* in these circumstances.
  - In the event of a scope limitation, a report with a peer review rating of *fail (with a scope limitation)* is issued.
- If a FFC form(s) was issued and any findings in those forms caused you to consider issuing a report with a peer review rating of *pass with deficiencies* or *fail* but not result in such a report being issued, describe such findings fully, indicating the basis for the conclusion in the notes section.
- If a firm submits a request to its administering entity for a waiver for an exclusion of certain engagement(s) and the administering entity concludes that scope has been limited due to circumstances beyond the firm's control, consider issuing a report with a scope limitation paragraph:
  - If the administering entity concludes that there is not a legitimate reason for the requested exclusion,

and the firm continues to insist on the exclusion, consider whether this is a matter of noncooperation and consult with the administering entity.

- Consult with the administering entity whenever the review captain and the reviewed firm have a disagreement on a significant issue, including the type of report to be issued.

#### IV. At the Conclusion of the Review:

~~4213~~. Discuss the following with the firm and document the items discussed in the Notes section of this checklist:

a. at the closing meeting:

- Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report to be issued.
- The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

b. at the exit meeting:

- Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFCs, FFCs, and deficiencies and significant deficiencies in the report
- Potential implications of the RAB acceptance such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings)

that may be imposed by the RAB, if applicable. The review captain should also discuss with the firm the implications of these steps on the acceptance and completion of the peer review and the firm's enrollment in the program.

- Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

- ~~• The review team should communicate that the firm may be required, if applicable, to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report and/or (2) complete an implementation plan to address the findings noted in the FFC form(s).~~

- ~~• The implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program:~~

— If any items were discussed with the partner(s) of the firm that were not deemed of sufficient significance to include in a MFC or FFC form, provide an explanation in the notes section.

- ~~13~~14. Prepare a written report on the results of the review and provide a copy to the reviewed firm within 30 days of the review of the engagement exit conference, or by the firm's peer review due date (whichever is earlier) (see Standards [paragraph .120](#)):

- Remind the firm that it should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

15. Describe the firm's taken or planned remediation of non-conforming engagements. Do you concur with the firm's response?

~~416.~~ Review and provide comments to the reviewed firm on its response to the report, if applicable (see Standards [paragraphs .123–.127](#)):

- If the reviewed firm receives a report with a peer review rating of *pass with deficiencies* or *fail*, the reviewed firm should respond in writing to the deficiencies or significant deficiencies ~~and related recommendations~~ identified in the report.

- The letter of response should be addressed to the administering entity’s peer review committee.

- The firm’s draft responses should be provided to the review captain as soon as practicable to allow the review captain sufficient time to assess the firm’s response prior to the exit conference.

- The letter should describe the actions planned ~~(including timing)~~ or taken by the reviewed firm to remediate the findings, deficiencies or significant deficiencies, including timing of the remediation and additional procedures to ensure the finding, deficiency, or significant deficiency is not repeated in the future, to prevent a recurrence of each matter discussed in the report.

- The review captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The firm’s letter of response should be finalized and dated as of the exit conference date and provided to the review captain. The review captain should include the firm’s letter of response with his or her report and working papers submitted to the administering entity.

- ~~The reviewed firm should submit a copy of the report, and its letter of~~



~~response, to the administering entity within 30 days of the date it received the report from the review captain or by the firm's peer review due date, whichever date is earlier.~~

~~— Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the review captain for review, evaluation, and comment.~~

- Illustrative letters of response are located in [appendixes O](#) and [Q](#).

~~1517.~~ Send the appropriate working papers to the administering entity within 30 days following the ~~review captain's discussions with the reviewed firm regarding the results of the review~~exit conference, or by the firm's peer review due date, whichever is earlier:

- For all reviews, submit a copy of the following:
  - The report and letter of response, if applicable. (~~Reminder: The reviewer is not expected to delay submission of peer review documents to the administering entity for receipt or review of the letter of response from the firm.~~)
  - *Engagement Summary Form*.
  - Engagement Questionnaire (committee appointed review team [CART] reviews only).
  - *Review Captain Summary*.
  - Reviewer's Engagement Checklists (CART reviews only).
  - FFC forms, as applicable.
  - MFC forms, submitted electronically or a hard copy, as applicable.

- Disposition of Matter for Further Consideration Form, submitted electronically or hard copy, as applicable.
- The firm’s representation letter.
- Note that other working papers on these reviews are subject to oversight procedures, which may be requested at a later date.
- For reviews conducted by committee-appointed review captains, submit your bill to the administering entity. Make sure the bill includes the federal employer identification number for Form 1099 purposes, when applicable.
- For reviews administered by the National PRC, also include all other working papers incorporated by reference, including the engagement questionnaires and checklists and planning documents, and any other relevant documents.

**V. After the Review’s Acceptance and Completion:**

~~1618.~~ After the review has been accepted, return the financial statements and other information to the firm or shred the documents.

**VI.**

**NOTES**

<i>Question Number</i>	<i>Notes</i>



	<i>Total No. Re- viewed</i>	<i>Total Not in Con- formity With Appli- cable Professional Standards in All Material Respects</i>
<b>and Review Services (SSARSs):</b>		
Reviews	_____	_____
Compilations with disclosures	_____	_____
Compilations omit disclosures	_____	_____
Preparation Engagements with disclosures	_____	_____
Preparation Engagements omit disclosures	_____	_____
<b>Statements on Standards for Attestation Engage- ments (SSAEs):</b>		
Compiled financial forecast and projection	_____	_____
Reviews of written assertions	_____	_____
Agreed-upon procedures	_____	_____
Other	_____	_____
<b>TOTAL—All Engagements</b>	_____	_____

**Part II: Reasons and Action Summary**

List engagements not performed and/or reported in conformity with applicable professional standards in all material respects.

<i>Type of engagement reviewed</i>	<i>Reason code</i>	<i>Action code</i>	<i>Comments</i>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

**REASON CODES** for engagements not performed and/or reported in conformity with applicable professional standards in all material respects:

GAP Non-GAAP

SAR Non-SSARS

ATT Non-SSAE

~~**ACTION CODES** for engagements not performed and/or reported in conformity with applicable professional standards in all material respects:~~

- ~~1. Report or financial statement recalled, revised and reissued.~~
- ~~2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent).~~
- ~~3. Omitted procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent).~~
- ~~4. Cause of independence impairment eliminated.~~
- ~~5. Unable to apply omitted procedures.~~
- ~~6. Notified parties that no reliance should be placed on the report issued.~~
- ~~7. Engagement letter to be prepared on subsequent engagements where a compilation report is not issued.~~
- ~~8. Engagement letter on subsequent engagements to include the required descriptions or statements, or additional matters, when applicable, where a compilation report is not issued.~~

**Part III: Exclusion Summary**

List engagements excluded from review.

<i>Type of engagement</i>	<i>Excluded reason code</i>	<i>Comments</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**EXCLUDED ENGAGEMENT REASON CODES**

1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

## PRP Section 6600

### *Instructions for Use of Findings for Further Consideration (FFC) Forms for Engagement Reviews*

- .01 The Finding for Further Consideration (FFC) form is prepared in connection with an Engagement Review if there are one or more matters that the peer reviewer believes results in the financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards, but the results were not of such relative importance to include in a report with a peer review rating of *pass with deficiencies* or *fail*. Each FFC form
- a. indicates which Matters for Further Consideration (MFCs) (by number) are addressed.
  - b. references the professional standard(s) applicable to the finding.
  - c. references the industry and level of service applicable to the finding, when a finding is industry specific, if applicable.
  - d. includes a summary of the reviewer's description of the finding from the MFCs addressed by this FFC.
  - e. indicates whether the finding was noted in the prior peer review report or FFCs.
  - ~~f. includes the reviewer's recommendation(s) written in a manner such that the firm can appropriately respond.~~
  - g. includes the reviewed firm's response. The reviewed firm should indicate whether it agrees with the finding ~~and the reviewer's recommendation~~. It is the firm's responsibility to identify the appropriate remediation. The reviewed firm's response should address the firm's actions taken or planned to remediate the findings, including the timing of the remediation, the person(s) responsible for the implementation, and additional procedures to ensure the finding is not repeated in the future ~~describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future.~~
  - h. has the reviewed firm's additional response attached.
  - i. is signed by an individual charged with governance responsibility of the firm as a whole.
  - j. is signed by the review captain on the peer review.
  - k. is part of the working papers and administrative files and is not a part of the reporting process.
  - l. is submitted by the firm to the review captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference, no later than 2 weeks after the review captain's discussions with the reviewed firm regarding the results of the review

~~at the closing meeting, or by the peer review's due date, whichever is earlier, so that they can be provided by the review captain with the applicable working papers to the administering entity.~~

- m. will be reviewed by the administering entity, with the applicable MFC forms, to determine if any additional firm action(s) will be required.
- n. is not tied to the reporting process or to the acceptance or completion of the peer review, but as with all documents, needs to be completed properly before the review can be accepted. It is considered a part of the working papers and administrative files when a firm implementation plan is required by the peer review committee. Firms are expected to agree to and complete any such implementation plans as a part of cooperating with the administering entity and the board in all matters related to the review.
- ~~o. allows the firm reviewer to use professional judgment in writing the recommendation(s) to the finding as long as it is written in a way that it would be expected for the reviewed firm to understand what the finding is and why it happened, and the recommendation appears appropriate in the circumstances. The review captain should review and evaluate the responses prior to the exit conference. Some components of the FFC form may need to be completed after other MFC forms and the Disposition of Matter for Further Consideration (DMFC) form are completed. If the MFC and FFC forms are completed in their entirety and include the elements described here, it is expected that the administering entity would not require any revisions to them.~~
- p. along with the associated MFC forms and the DMFC form, and, if applicable, firm implementation plan, is subject to oversight.

**.02** Ordinarily, engagement reviews are not conducted in person, but rather through the exchange of information via mail, fax, email and phone calls. In consideration of this, a review captain may document the reviewed firm's response on an FFC form on behalf of the firm, based on discussions with the firm. However, the appropriate reviewed firm representative must still sign the FFC form, either manually or electronically. The form can be mailed, faxed or emailed to the reviewed firm for that signature, and then sent back to the review captain.

**.03** A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed or reported on in conformity with applicable professional standards. A *finding* is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency.

**.04** Depending on the resolution of a matter and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated, and after considering their nature and relative importance, including whether they are material to the understanding of the report or financial statements, or represent the omission of a critical procedure including documentation, may not get elevated to a deficiency. Alternatively, a matter may develop into a finding and get elevated to a deficiency. That deficiency may or may not be further elevated to a significant deficiency.

**.05** FFC forms on Engagement Reviews require that the reference be made to the applicable professional standard(s) to which the finding relates. The reviewer must complete the professional standards reference section before the form is given to the firm for their comments. Including a specific reference allows the firm to consult with that section of professional standards in order to prepare an informed response.

- .06** The reviewed firm should be reminded to include comments beyond “yes” or “no” to indicate their agreement with the finding. ~~If the reviewed firm disagrees with the finding, they should detail the basis for their disagreement, including the references to professional standards that support that basis. If the reviewed firm disagrees with the finding, they should follow the disagreement guidance in paragraph .116 of the standards.~~
- .07** It is the firm’s responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, Tthe AICPA Peer Review Board encourages the reviewed firm to work with the review captain to develop ~~recommendations~~ remedial actions that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the peer review. Experience shows that improvement is more likely to occur when the ~~recommendations~~ remediation describes specific actions to be taken. Therefore, a response limited to the firm’s comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.
- .08** FFC forms will be retained by the administering entity in the administrative files until the completion of the next peer review. They will be considered during the performance of the next peer review. The administering entity’s peer review committee will determine if a finding should require an implementation plan from the reviewed firm in addition to the plan described by the firm in its response to the findings on the FFC form.

**.09**

**FINDING FOR FURTHER CONSIDERATION (FFC) FORM**

FFC #

REVIEWED FIRM

PEER REVIEW YEAR-END

MFC(S) COVERED BY THIS FORM (List MFC #s)

PROFESSIONAL STANDARDS REFERENCE(S)

INDUSTRY <sup>fn 1</sup>

<sup>fn 1</sup> Related industry and level of service should be noted in instances where the finding is industry specific.



LEVEL OF SERVICE <sup>fn \*</sup>

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REVIEWER'S DESCRIPTION OF THE FINDING

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WERE SIMILAR FINDINGS NOTED IN THE PRIOR REVIEW?

YES

NO

**REVIEWER'S RECOMMENDATION**

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REVIEWED FIRM'S RESPONSE (The response should describe:- the firm's actions taken or planned to remediate the findings, including the timing of the remediation, the person(s) responsible for the implementation, and additional procedures to ensure the finding is not repeated in the future~~(a) how the firm intends to implement the reviewer's recommendation [or alternative plan if the firm does not agree with the reviewer's recommendation]; (b) the person(s) responsible for implementation; (c) the timing of the implementation; and, (d) if applicable, additional procedures to ensure that the finding is not repeated in the future.~~)

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<sup>fn \*</sup> See [footnote 1](#).

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Reviewed firm's additional response is attached

Individual charged with governance responsibility

of the firm as a whole

Date:

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Review Captain

Date:

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**This document will be retained by the administering entity until the completion of the next peer review and will be considered during the performance of that peer review.**

## PRP Section 8100

### *Instructions to Providers Having a Quality Control Materials Review*

#### Prior to the Review

.08 The provider and the QCM reviewer should agree on an appropriate date for the review to commence and the anticipated exit conference date. Ordinarily, the review should be performed within six months following the end of the year to be reviewed. The review should be planned to provide the review team with sufficient time to perform the review and to give the provider with sufficient time prior to the exit conference to determine appropriate responses to matters, findings, deficiencies, and significant deficiencies identified during the review. In most circumstances, the applicable period should not change from one triennial review period to the next. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the NPRC to determine whether an accelerated review is warranted.

#### Completion of the Review and Firm Responses

.18 Prior to issuing his or her report or finalizing matter for further consideration (MFC) and finding for further consideration (FFC) form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting. It is expected that the provider's senior management, the individuals responsible for maintaining the provider's system of quality control and the review team physically attend the closing meeting. The closing meeting may also be attended by representatives of the National PRC, the QCM Task Force, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.
- b. The provider's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- c. Other suggestions and observations for the provider to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

.19 An exit conference will be held after the provider has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the QCM results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the provider, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the provider sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the provider's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit

conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the provider's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.
- b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the provider the implications of these steps on the acceptance and completion of the peer review and the provider's enrollment in the program.
- c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable.

~~.18 A provider that has a QCM review should respond promptly to questions raised in the review in order to assist the QCM review team in reaching its conclusions. Prior to issuing its report or finalizing Finding for Further Consideration (FFC) form(s), if applicable, the QCM review team will communicate any matters documented on the Matter for Further Consideration (MFC) form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report to be issued through one or more exit conferences. The designated liaison should arrange for appropriate personnel to attend the exit conference. The exit conference may be attended by representatives of the NPRC, the QCM Task Force, the AICPA Peer Review Board, AICPA staff, or other board authorized organizations with oversight responsibilities.~~

~~.19 The QCM review team should communicate, if applicable, that the provider will be required to respond to the findings documented on the FFC form(s) and the deficiency(ies) or significant deficiencies included in the peer review report. The QCM review team should also communicate that the provider may be required, if applicable, to (1) take certain actions to correct the deficiencies or significant deficiencies noted in the report and (2) complete an implementation plan to address the findings noted in the FFC form(s). The QCM review team should discuss with the provider the implications of these steps on the acceptance and completion of the peer review. The exit conference is also the appropriate vehicle for providing suggestions to the provider that are not included in the report, FFC form(s), or MFC form(s).~~

**.20** The provider will provide the QCM reviewer with written representations, at a minimum, relating to the following matters:

- a. Situations where management is aware that its materials were used and substantially relied upon in an engagement that was later found to not comply with the applicable standards or regulations (auditing, review, reporting, and so on) in all material respects, when the materials were found to be an underlying systemic cause of the engagement deficiencies.
- b. Access to all sources of feedback, including user feedback.
- c. Situations or a summary of situations where management is aware that its personnel or non-personnel contributors or reviewers (for example, guest authors or reviewers) have not complied with the rules and requirements of state board(s) of accountancy or other regulatory bodies, as applicable (including applicable licensing requirements in each state in which it practices if the provider is a firm or has employed CPA personnel), and if applicable, how the provider has or is addressing and rectifying situations of noncompliance.

- d. Restrictions or limitations of CPA personnel or non-personnel contributors that impacts their ability to practice public accounting within three years preceding the current peer review year-end that were imposed by or agreed to with other regulatory, monitoring, or enforcement bodies (for example, the PCAOB, SEC, U.S. Government Accountability Office, Department of Labor, any state board of accountancy or AICPA or state society professional ethics committee, or any other government agency).
- e. Access to records and systems of control, including but not limited to, employee files of leased and per diem employees, records related to non-personnel contributors or reviewers, and so on.
- f. Materials provided for review that are complete and represent the final version of the materials.

The written representations should be addressed to the QCM reviewer performing the peer review. Because the QCM reviewer is concerned with events occurring during the review period and through the date of his or her QCM review report that may require an adjustment to the QCM review report or other review documents, the representations should be dated the same date as the QCM review report. See [appendix A](#) for an illustration of provider representations.

~~.21 Ordinarily any FFC forms should be responded to by the provider during the peer review, for example, during or immediately following the exit conference. This would allow the QCM reviewer to assist the provider in developing its responses and obtaining the necessary signatures on the FFC forms and allow the QCM reviewer to review the responses at that time, all of which will expedite the process. In some cases, the provider will choose to check the box on the FFC form that it agrees with the finding and will implement the reviewer's recommendation. If the provider prefers to provide a description of the action(s) taken or planned to be taken (and timing), the QCM reviewer can provide assistance in ensuring that the responses are appropriate and comprehensive. However, it is also recognized that the provider may prefer to provide its final responses after it has had the opportunity to discuss them further internally, develop a plan of action and more formally respond. In either case, the completed FFC forms should be submitted to the QCM reviewer no later than two weeks after the exit conference, or by the peer review's due date, whichever is earlier. FFC forms are then submitted by the QCM reviewer with the applicable working papers to the NPRC.~~

.21 The provider should respond to all matters communicated on an MFC form, findings communicated on an FFC form and deficiencies or significant deficiencies communicated in the QCM report. The provider's draft response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the National PRC. The provider's responses should be provided to the QCM reviewer as soon as practicable to allow the QCM reviewer sufficient time to assess the firm's response prior to the exit conference.

.22 If the provider receives an FFC form or a report with a review rating of *pass with deficiencies* or *fail*, it is the provider's responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. The provider should address the following in its response with respect to each finding, deficiency and significant deficiency:

a. Materials that have an error or omission, including the following:

- The provider's actions taken or planned to remediate the error or omission identified on the FFC form or in the report, including the provider's plan for notifying known users of the materials.
- The provider's actions taken or planned to remediate findings and deficiencies in the provider's system of quality control

b. Systemic issues unrelated to materials that have an error or omission:

- The provider's actions taken or planned to remediate findings and deficiencies in the provider's system of quality control

c. Timing of the remediation

.23 The QCM reviewer should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the provider's response should be discussed during the exit conference. The provider's letter of response should be finalized and dated as of the exit conference date and provided to the QCM reviewer. The QCM reviewer should include the provider's letter of response with his or her report and working papers submitted to the National PRC.

~~.22 The provider will receive a report on the QCM review within 30 days of the exit conference date. However, the provider should not publicize the results of the review or distribute copies of the report to its personnel, customers, or others, until it has been advised that the report has been accepted by the NPRC as meeting the requirements of the program.~~

~~.23 If the provider receives a report with a peer review rating of "pass with deficiencies" or "fail," the provider should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the NPRC and should describe the actions planned (including timing) or taken by the provider with respect to each deficiency in the report. The provider should submit a copy of the report, and its letter of response, to the NPRC within 30 days of the date it received the report from the QCM reviewer. Prior to submitting the response to the NPRC, the provider should submit the response to the QCM reviewer for review, evaluation, and comment.~~

.2426 If the provider receives a report with a review rating of "pass" or "pass (with a scope limitation)," a letter of response is not applicable, and the provider does not submit a copy of the report to the NPRC.

.2527 Reviewers and providers should understand that professional judgment often becomes a part of the process and each party has the right to challenge the other on such matters. If, after discussion with the QCM reviewer, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact NPRC staff for assistance in the matter. ~~If the provider still disagrees after contacting the NPRC, the provider's response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement. For more information on disagreements, please review paragraph .98 of section 1000.~~

.2628 It is the provider's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, ¶the AICPA Peer Review Board encourages the provider to work with the QCM reviewer to develop ~~recommendations~~ remedial actions that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the QCM review. Experience shows that improvement is more likely to occur when the provider's responses describe specific actions to be taken. Therefore, a response limited to the provider's comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

## Appendix A

### .3335

#### **Illustration of a Provider Representation Letter that has No Significant Matters to Report to the QCM Reviewer**

October 31, 20XX<sup>fn 1</sup>

To the QCM reviewer:

We are providing this letter in connection with the quality control materials review of [*name of provider*] and the [*insert the titles of the materials*] as of the date of this letter and for the year ended June 30, 20XX.

We confirm, to the best of our knowledge and belief, that there are no known circumstances when our materials were used and substantially relied upon in an engagement that was later found to not comply with the applicable standards or regulations<sup>fn 2</sup> in all material respects when the above named materials were found to be ~~an underlying systemic~~ cause resulting in the engagement deficiencies. We also confirm that we have considered all sources of feedback, including feedback from users. We have made you aware of any situations when management is aware that its personnel or non-personnel contributors or reviewers<sup>fn 3</sup> have not complied with the rules and requirements of state board(s) of accountancy or other regulatory bodies (as applicable)<sup>fn 4</sup> and how the provider has or is addressing and rectifying situations of noncompliance. We have also determined that none of our CPA personnel or non-personnel contributors or reviewers are subject to any restrictions or limitations that impacts their ability to practice public accounting within three years preceding the current peer review year end that were imposed by or agreed to with other regulatory, monitoring, or enforcement bodies.<sup>fn 5</sup> Further, we have provided the QCM reviewer with any other information requested and access to records and systems of control, including but not limited to, employee files of leased and per diem employees, files related to non-personnel contributors or reviewers, user feedback, and so on.

Sincerely,

[*Name of Signatory*]<sup>fn 6</sup>

[*Name of Provider*]

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<sup>fn 1</sup> Should be dated the same date as the quality control materials review report.

<sup>fn 2</sup> For example, auditing, review, reporting standards, and so on. Consideration should also be given to regulatory guidance, such as the Employee Retirement Income Security Act, the Office of Management and Budget, the Department of Labor (DOL), and so on.

<sup>fn 3</sup> Including guest or external authors or reviewers.

<sup>fn 4</sup> Including applicable licensing requirements in each state in which it practices if the provider is a firm or has employed CPA personnel.

<sup>fn 5</sup> For example, the PCAOB, SEC, U.S. Government Accountability Office, DOL, any state board of accountancy or AICPA or state society professional ethics committee, or any other government agency.

<sup>fn 6</sup> Letter should be signed by the appropriate party at the provider that has primary responsibility for the system to develop and maintain the materials.



## PRP Section 8200

### *Instructions to Reviewers Performing Quality Control Materials Reviews*

#### Findings and Conclusions

- .25** A QCM reviewer notes a *matter* as a result of (a) his or her evaluation of the design of the provider's system of quality control or tests of compliance with it or (b) his or her evaluation of whether the materials submitted for review are reliable aids. Tests of compliance include inspection, inquiry, and observation performed by reviewing the materials and testing other aspects of the provider's system of quality control. A matter is documented on a matter for further consideration (MFC) form. If the matter, after further evaluation, gets elevated to a finding but not a deficiency or significant deficiency, it is documented on an FFC form. The FFC form is a stand-alone document that includes the **reviewer's recommendation description of the finding, the systemic cause, if known**, and the provider's response regarding actions planned or taken and the timing of those actions by the provider. **The description of the finding should describe the scenario that led to the finding and should reference the materials with omissions or errors, if applicable.** MFC and FFC forms are subject to review and oversight by the NPRC, which will evaluate the provider's FFC form responses for appropriateness and responsiveness and determine whether any follow-up action is necessary. If the matter documented on the MFC form is instead elevated to a deficiency or significant deficiency, then it is communicated in the report itself, ~~along with the reviewer's recommendation~~. The provider submits a letter of response, which is also evaluated for appropriateness and responsiveness, regarding actions planned or taken and the timing of those actions by the provider.
- .26** A *finding* is one or more related matters that result from (a) a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop or maintain reliable aids or (b) the reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass. A QCM reviewer will conclude whether one or more findings are a deficiency or significant deficiency. If the QCM reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of "pass" is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on an FFC form. Findings will be evaluated and, after considering the nature, **systemic** causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency. A matter may develop into a finding and get elevated to a deficiency, and that deficiency may or may not be further elevated to a significant deficiency.
- .27** A *deficiency* is one or more findings that (a) the QCM reviewer has concluded, due to the nature, **systemic** causes, pattern, or pervasiveness, including the relative importance of the finding to the provider's system of quality control taken as a whole, could create a situation in which the provider would not have reasonable assurance of developing or maintaining reliable aids or (b) impacts the reliability of one or more of the materials tested such that one or more of the materials do not encompass the components that are integral to the professional standards that the materials purported to encompass. It is not a significant deficiency if the QCM reviewer has concluded that except for the deficiency(ies), the provider has reasonable assurance of developing and maintaining reliable aids, or the nature of the deficiency(ies) is (are) limited to a small number of the total materials reviewed. Such deficiencies are communicated in a report with a QCM review rating of "pass with deficiencies."



## Expansion of Scope

**.30** If, during the course of the QCM review, the QCM review team concludes that there is a potential matter or finding arising from the testing of one or more of the materials or functional areas in the system of quality control, the QCM review team should consider whether the application of additional review procedures is necessary. This consideration should be documented in the QCM review working papers. The objective of the application of additional procedures would be to determine whether the matter or finding is isolated or indicative of a larger issue. Under some circumstances, the QCM review team may conclude that, because of compensating controls or other reasons, further procedures are unnecessary. If, however, additional procedures are deemed necessary, they may include an expansion of scope to review all or additional portions of one or more of the materials or aspects of functional areas. Regardless of the conclusion about scope expansion, the team captain should evaluate the provider's planned or taken remediation of the materials and determine if lack of an appropriate response indicates there are other weaknesses in the provider's system. For example, an inappropriate response may be indicative of a potential failure to comply with the leadership or tone at the top element in the provider's system of quality control. A failure to properly consider how to address errors or omissions may indicate an internal provider culture that fails to promote that quality is essential in developing materials.

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

**Points to Consider When Writing Deficiencies or Significant Deficiencies ~~or Recommendations~~ to Be Included in a Report With a Rating of "Pass With Deficiencies" or "Fail"**

**.39** On a QCM review, the deficiencies in the report should include the following:

- a. What the provider's policies include or exclude (what the system is designed to do or not designed to do). This sets up the written deficiency in the report to articulate whether the provider's system of quality control is designed appropriately. The deficiency is related to the design of the provider's system of quality control or the provider's failure to comply with or document its compliance with an appropriately designed system.
- b. The ~~underlying systemic~~ cause of the deficiencies. What happened (design failure or pervasive compliance issues) to cause the deficiency? This is often the most difficult area to identify when writing a deficiency, but it is also extremely important to identify the systemic cause, not just the provider's failure to comply with its policies and procedures. This is ultimately what the provider will need to change (the design of its system of quality control or how it complies with an appropriately designed system) in order for the deficiency not to recur.
- c. The specific materials that are impacted by the deficiencies. The materials should be identified by title in the deficiencies.
- d. Using the term *significant deficiencies* as a caption before all the identified deficiencies only when a report with a QCM review rating of "fail" is issued.
- e. If any of the current deficiencies or significant deficiencies were also noted in the provider's previous QCM review(s), whether in the prior report or letter of comment, that fact should be identified by stating, "This deficiency was noted in the provider's previous QCM review."

**.40** On a QCM Review, written deficiencies should avoid the following:

- a. Including personal preferences.
- b. Referencing specific individuals by name.
- c. Using undefined acronyms such as GAAP, GAAS, CPE, or FASB.
- d. Identifying references to specific technical standards, unless it is critical to the understanding of the deficiency, in which case the deficiency should be written in a sufficient and succinct manner, describing the technical standards in the proper context. Otherwise, the use of the general term *professional standards* should be used.
- e. Grouping unrelated issues (different underlying systemic causes) into a single deficiency.
- f. Using titles preceding the deficiency that include *design deficiency* or *compliance deficiency* or the applicable functional element of quality control.

~~.41 Recommendations that follow the deficiencies or significant deficiencies included in the report should be very specific, not a reiteration of the deficiency or significant deficiency. Recommendations should focus on the underlying cause of the provider's deficiencies or significant deficiencies and what the provider needs to do to correct its design of its system of quality control or compliance with it.~~

## Completion of the Review

~~.43 The team captain, in collaboration with the provider, should determine the systemic cause of matters identified. A systemic cause is a weakness in the provider's system of quality control that allowed a matter to occur or remain undetected. Proper determination of the systemic cause is essential to assist the provider with identifying the appropriate remediation of the provider's system of quality control. To conclude on the results of a QCM review, the QCM review team must aggregate the matters noted during the QCM review and determine whether the matters were the result of the design of the provider's system of quality control or the failure of its personnel to comply with the provider's quality control policies and procedures. The QCM review team should consider their relative importance to the provider's system of quality control as a whole and their nature, systemic causes, pattern, and pervasiveness, to determine the impact to the QCM report. In rare circumstances where it is not practicable to identify the systemic cause, the team captain should document the reason(s) as part of his or her summary review memorandum.~~

~~.44 Proper application of the standards assists team captains in evaluating the systemic cause of matters and, as a result, the type of report to issue. Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the QCM review. The QCM reviewer should consult with NPRC staff if he or she believes that one or more findings is a deficiency or significant deficiency.~~

~~.45 The exit conference marks the end of fieldwork in all substantial respects. Prior to the issuance of its report, the provider should be informed about any matters documented on the MFC form(s), findings documented on the FFC form(s), deficiencies or significant deficiencies to be included in the QCM review report, and the type of report to be issued. This communication ordinarily would take place at a meeting (exit conference) attended by appropriate representatives of the QCM review team and provider. The exit conference is also the appropriate vehicle for providing recommendations to the provider that do not affect the report, discussing new issues to monitor, and providing guidance on how to write a letter of~~

response, if applicable. During the exit conference, the QCM review team should also remind the provider that it should not publicize the results of the review or distribute copies of the report to its personnel, customers, or others until it has been advised that the report has been accepted by the NPRC as meeting the requirements of the program.

~~.46 The QCM review team should notify the NPRC of the date and time of the scheduled exit conference to permit representatives of the NPRC or its staff to attend the exit conference, if they so elect. The QCM review team, except in rare instances, should not hold the exit conference until the results of the QCM review have been summarized, and the report has been drafted, or a detailed outline has been prepared of the matters to be included in these documents. If there is uncertainty concerning the opinion to be expressed, the QCM review team should postpone the exit conference until a decision has been reached. Reviewers should remind the provider that the report is not finalized, and it may change, and inform the provider that the NPRC may require the provider to complete follow up action(s).~~

.45 Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the provider at a closing meeting. The team captain should ordinarily be physically present at the closing meeting, unless the System Review is performed at a location other than the reviewed firm's office. The closing meeting may also be attended by representatives of the NPRC, the QCM Task Force, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting:

- a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.
- b. The provider's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
- c. Other suggestions and observations for the provider to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

.46 An exit conference will be held after the provider has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the QCM results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the provider, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the provider sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the provider's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

- a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the provider's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.

b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the provider the implications of these steps on the acceptance and completion of the peer review and the provider's enrollment in the program.

c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable.

.47 QCM reviewers should obtain the written representations, at a minimum relating to the following matters:

- a. Situations when management is aware that its materials were used and substantially relied upon in an engagement that was later found to not comply with the applicable standards or regulations (auditing, review, reporting, and so on), in all material respects, when the materials were found to be an underlying-systemic cause of the engagement deficiencies.
- b. Access to all sources of feedback, including user feedback.
- c. Situations or a summary of situations when management is aware that its personnel or nonpersonnel contributors or reviewers (for example, guest authors or reviewers) have not complied with the rules and requirements of the state board(s) of accountancy or other regulatory bodies, as applicable (including applicable licensing requirements in each state in which it practices, if the provider is a firm or has employed CPA personnel), and, if applicable, how the provider has or is addressing and rectifying situations of noncompliance.
- d. Restrictions or limitations of CPA personnel or nonpersonnel contributors that impacts their ability to practice public accounting within three years preceding the current peer review year-end that were imposed by, or agreed to with, other regulatory, monitoring, or enforcement bodies (for example, the PCAOB, SEC, the Government Accountability Office, the Department of Labor, any state board of accountancy or AICPA or state society professional ethics committee, or any other government agency).
- e. Access to records and systems of control, including, but not limited to, employee files of leased and per diem employees, records related to nonpersonnel contributors or reviewers, and so on.
- f. Materials provided for review that are complete and represent the final version of the materials.
- g. Other representations obtained by the QCM reviewer will depend on the circumstances and nature of the QCM review.

The written representations should be addressed to the QCM reviewer performing the QCM review. Because the QCM reviewer is concerned with events occurring during the QCM review period and through the date of his or her QCM review report that may require an adjustment to the QCM review report or other QCM review documents, the representations should be dated the same date as the QCM review report.

~~.48 If the provider receives a report with a QCM review rating of "pass," a letter of response is not applicable, and the provider does not submit a copy of the report to the NPRC. Otherwise, the provider should submit a copy of the report and its letter of response to the NPRC within 30 days of the date that it received the report from the QCM reviewer or by the firm's QCM review due date, whichever date is earlier.~~

~~.49 If the provider receives a report with a QCM review rating of “pass with deficiencies” or “fail,” the provider should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report. The letter of response should be addressed to the NPRC and should describe the actions planned (including timing) or taken by the provider with respect to each deficiency in the report. Prior to submitting the response to the NPRC, the provider should submit the response to the QCM reviewer for review, evaluation, and comment.~~

~~.50 The provider should respond to all findings and related recommendations not rising to the level of a deficiency or significant deficiency on the related FFC forms. These responses should describe the plan that the provider has implemented or will implement (including timing) with respect to each finding. The QCM reviewer should review and evaluate the responses on the FFC forms before they are submitted to the NPRC (see Interpretation 99-1 in section 2000).~~

~~.48 The provider should respond to all matters communicated on an MFC form, findings communicated on an FFC form and deficiencies or significant deficiencies communicated in the QCM report. The provider’s draft response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the National PRC. The provider’s responses should be provided to the QCM reviewer as soon as practicable to allow the QCM reviewer sufficient time to assess the firm’s response prior to the exit conference.~~

~~.49 If the provider receives an FFC form or a report with a review rating of *pass with deficiencies* or *fail*, it is the provider’s responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. The provider should address the following in its response with respect to each finding, deficiency and significant deficiency:~~

~~a. Materials that have an error or omission, including the following:~~

- ~~• The provider’s actions taken or planned to remediate the error or omission identified on the FFC form or in the report, including the provider’s plan for notifying known users of the materials.~~
- ~~• The provider’s actions taken or planned to remediate findings and deficiencies in the provider’s system of quality control~~

~~b. Systemic issues unrelated to materials that have an error or omission:~~

- ~~• The provider’s actions taken or planned to remediate findings and deficiencies in the provider’s system of quality control~~

~~c. Timing of the remediation~~

~~.50 The QCM reviewer should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the provider’s response should be discussed during the exit conference. The provider’s letter of response should be finalized and dated as of the exit conference date and provided to the QCM reviewer. The QCM reviewer should include the provider’s letter of response with his or her report and working papers submitted to the National PRC.~~

~~.51 Reviewers and providers should understand that professional judgment often becomes a part of the process, and each party has the right to challenge the other on such matters. If, after discussion with the QCM reviewer, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact the NPRC for assistance in the matter. ~~If the firm still disagrees after contacting the NPRC, the firm’s response either on the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.~~ For more information on disagreements, please review paragraph .98 of section 1000.~~

**.52** It is the firm's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, ¶the AICPA Peer Review Board encourages the provider to work with the QCM reviewer to develop ~~recommendations~~ remedial actions that both parties believe will be effective in correcting the matters, findings and deficiencies noted during the QCM review. Experience shows that improvement is more likely to occur when the letter of response describes specific actions to be taken. Therefore, a response limited to the provider's comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

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# PRP Section 8800

## *QCM Review Summary Review Memorandum*

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### I. Planning and Performing the QCM Review

B. Was the provider previously reviewed? Yes  No  If "Yes," indicate, read the prior report and findings reflected in the FFC forms(s) and provider representation letter and document the following: based on your evaluation of the actions taken by the provider in response to the deficiencies/significant deficiencies, if any, in the prior report and findings reflected in the FFC form(s), whether such matters required additional emphasis in the current review and how that was done.

- Summary of the actions taken by the provider in response to any findings, deficiencies or significant deficiencies
- Evaluation of whether the actions taken addressed the systemic cause of the finding, deficiency, or significant deficiency
- If the provider did not perform the actions documented in its prior review responses, evaluation of whether sufficient alternative procedures were performed and if not, whether there are deficiencies in the provider's system of quality control such as leadership responsibilities for quality within the firm (tone at the top)
- Consideration of whether such matters require additional emphasis in the current review and how that will be done.

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## PRP Section 8900

### QCM Review Team Captain Checklist

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	Initial	Date
<b>I. Planning the Review</b>		
11. Contact the provider sufficiently in advance of the review (ordinarily, at least four weeks before the review) and		
e. inquire whether the provider has had a previous QCM review and, if so, request a copy of the report, letter of response, if applicable, <del>and the letter accepting those documents. Obtain the prior</del> FFC forms, if applicable, <u>and provider representation letter</u> <del>(from the provider or National PRC if the team captain's firm did not perform the prior QCM review)</del> . Discuss these documents with the provider and consider whether the issues discussed in those documents impact planning and/or require additional emphasis in the current review.		
<b>II. Performing the Review</b>		
1. Meet with other reviewers to		
a. orient them to the provider's policies and procedures, especially the information obtained as a result of performance of the procedures in the previous Steps I.7–I.14. Each member should read the quality control document (if any) relative to their part of the review.		
b. instruct them in the manner in which working papers, questionnaires, checklists, and Matter for Further Consideration (MFC) forms are to be prepared to facilitate summarization, supervision, and review. Explain the method of documenting the matters that, in the QCM reviewer's opinion, could be findings to be documented on Finding for Further Consideration (FFC) forms or a deficiency(ies) or significant deficiencies in the design of the provider's quality control procedures or significant lack of compliance the-rewith, in the materials themselves, or both that might affect the review team's report.		
c. assign responsibilities for review of the functional quality control areas and the materials. Assignments to review the materials should be made based on industry experience. Time must be scheduled to permit proper supervision and review of the work of the reviewers.		
d. <u>discuss recent Peer Review Alerts and applicability to the quality control materials.</u>		



**III. At the Conclusion of the Review**

1. ~~If FFC forms have not already been responded to, assist the provider in developing its responses during or immediately after the exit conference. Review the provider's responses for appropriateness. The provider's response should:~~
  - a. ~~clearly indicate its agreement with the finding described or an explanation of its reasons for disagreement; and~~
  - b. ~~describe the plan the provider has implemented or will implement (including timing) with respect to each finding.~~
  
2. ~~Prior to issuing the report or finalizing MFC and FFC form(s), if applicable, communicate the review team's results to the appropriate individuals and key personnel of the provider at a closing meeting/an exit conference. The team captain ordinarily should be physically present at the closing meeting unless the QCM review is performed at a location other than the provider's office.~~ The provider is entitled to be informed at the closing meeting/exit conference about:
  - ~~any matters documented on the MFC form(s), findings documented on the FFC forms(s), deficiencies or significant deficiencies to be included in the report and the type of report to be issued, if determinable at this point.~~
  - The provider's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.
  - Other suggestions and observations for the firm to consider. ~~The team captain ordinarily should be physically present at the exit conference unless the QCM review is performed at a location other than the provider's office.~~
  
3. ~~Review the provider's responses for appropriateness. The provider's responses should:~~ Review the provider's responses for appropriateness. The provider's responses should:
  - a. clearly indicate its agreement with the finding described or an explanation of its reasons for disagreement; and
  - b. describe the plan the provider has implemented or will implement (including timing) with respect to each finding.
  
3. During the ~~exit conference~~closing meeting, communicate the following:
  - a. The provider should not publicize the results of the review or distribute copies of the QCM report to its personnel, customers, or others until it has been advised that the report has been accepted by the National PRC.
  - b. The anticipated date for issuance of the QCM report and completion of the review.
  
4. During the ~~exit conference~~closing meeting, also communicate the following for *pass with deficiencies* or *fail* reports:
  - a. The letter of response should be addressed to the National PRC and should describe the actions taken or planned (in-

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cluding timing) with respect to each deficiency or significant deficiency in the report. If the provider disagrees with one or more of the deficiencies or significant deficiencies, the provider should contact the National PRC for assistance.

~~If, after discussion with the National PRC, the provider still disagrees, its response should describe the reasons for such disagreement.~~

- b. The provider should submit a draft of its letter of response, if applicable, to the team captain for review ~~and comment prior to submitting the response (and a copy of the report with a pass with deficiency or fail rating) to the National PRC~~ as soon as practicable to allow sufficient time for the team captain to assess the firm's response.
- c. The provider should expect to receive a follow-up (corrective) action from the National PRC when a pass with deficiency or fail report is likely to be issued. You should also inform the provider that in certain situations, the National PRC may require an implementation plan in regards to the FFCs, as a condition of cooperation. In both cases, you should explain to the provider the effect, if any, of the requested action on the National PRC's acceptance and completion of the review.
- d. The provider should expect that if it has failed to correct deficiencies or significant deficiencies after consecutive corrective actions requested by the National PRC, that it may be deemed as refusing to cooperate, and the provider should understand the possible consequences (see paragraph 200 and Interpretation 200-1 for more information).

5. After the provider responds to matters, findings, deficiencies, and significant deficiencies, assess the provider's response for any impact to the peer review. Conduct an exit conference to discuss the results of the review to be submitted to the administering entity. (see Standards paragraphs .91-.92)

56. Prepare the report using guidance in the applicable *Standards for Performing and Reporting on Peer Reviews*.
- a. Determine whether the report is complete and understandable to the general public.
  - b. Submit the originals of the report to the provider within 30 days of the exit conference date or by the provider's due date, whichever is earlier.
  - c. Submit a copy of the report to the National PRC within the same timing as that mentioned in the preceding step, along with a copy of the *QCM Review Completion Form* (see [Appendix A](#)).

6. Obtain and review the provider's representation letter.

#### IV. After the Exit Conference

1. ~~If FFC forms were not responded to by the provider during the QCM review, ensure that the completed forms with the provider's responses are submitted to you no later than two weeks after the exit conference.~~
2. Review the provider's letter of response:
  - a. ~~Not applicable~~
  - b. ~~Yes—the letter of response adequately addresses all deficiencies in the report~~
  - c. ~~No—include an explanation with your working papers submitted to the National PRC~~
3. Complete the QCM Review Summary Review Memorandum (PRP Section 8800).
4. Send the appropriate working papers to the National PRC within 30 days of the exit conference. Consider sending by an insured carrier or retaining and sending copies, or both.

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For all reviews, submit a copy of the following:

- The report and letter of response, if applicable
- *QCM Review Summary Review Memorandum* (including the DMFC form)
- *The Team Captain Checklist*
- *The Guidelines for Review of Quality Control Policies and Procedures*
- *The Review of Quality Control Materials Checklist(s)*
- *The QCM Author/Technical Reviewer Interview Questionnaire*
- The FFC forms, as applicable
- The MFC forms, as applicable
- The provider's representation letter
- The provider's quality control document
- Documentation of testing performed on the functional areas
- Documentation of testing performed on the materials

Also include all other working papers incorporated by reference  
and any other relevant documents.

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## PRP Section 8950

### *Instructions for Use of Matter for Further Consideration Forms for Quality Control Materials Reviews*

- .01** A reviewer should prepare a Matter for Further Consideration (MFC) form to clearly and concisely document matters identified during a Quality Control Materials (QCM) review. A QCM reviewer notes a *matter* as a result of his or her evaluation of the design of and compliance with the provider's system of quality control, or his or her evaluation of whether the materials submitted for review are reliable aids. Matters can be one or more "no" answers to questions in QCM review questionnaire(s) that a QCM reviewer concludes warrant further consideration in the evaluation of a provider's system of quality control or the resultant materials. For example, when the review team encounters situations in which it questions whether the instructions, guidance or methodology appearing in the materials submitted for review are appropriate to assist users in conforming with the components of the professional standards that the materials purport to encompass, the reviewer should document the issue on an MFC form.
- a. references the professional standard(s) applicable to the matter.
  - b. references the materials, author, technical reviewer, and other data from review of QCM checklists applicable to the matter.
  - c. includes a summary of the reviewer's description of the matter including, when possible, the systemic underlying cause of the matter. ~~The systemic cause is determined by the team captain in collaboration with the provider.~~
  - d. identifies the type of matter: design, compliance, or materials specific.
  - e. indicates the provider's agreement (or lack thereof) with the description of the matter.
  - f. includes the provider's comments on the circumstances and relative importance of the matter.
  - g. includes the team captain's additional comments.
  - h. includes the team member, if applicable, and team captain's signatures as approval of the information within the form.
  - i. includes the provider's representative's signature.
- .06** The provider should be reminded to include comments beyond "yes" or "no" to indicate its agreement with the matter. If the provider disagrees with the matter, it should detail the basis for their disagreement, including the references to professional standards that support that basis. If the provider agrees with the comment, it should be encouraged to provide information that can help ~~the reviewer~~ identify any systemic cause underlying the matter.

**.12**

#### MATTER FOR FURTHER CONSIDERATION (MFC) FORM

Provider:

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Matter for further consideration (MFC) number:

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Quality Control (QC) System Questionnaire

QC section

Program step

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Review of Quality Control Materials Questionnaire

QCM De- scription	Author	Technical Reviewer	Period En- compassed by QCM	Review of QCM Checklist Version	Review of QCM Checklist Question No.	Professional Standards Ref- erence <sup>fn 1</sup> (if applicable)

MFC number: \_\_\_\_\_

Reviewer's Description of the Matter (include ~~underlying systemic~~ cause, when possible)

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<sup>fn 1</sup> Professional standards references should be as specific as possible, including paragraph references when applicable. The professional standards references may be obtained from the respective engagement checklist question and the entry of references on MFC forms should align with those provided in the checklists.

Type of matter:  Design  Compliance  Materials Specific

*To be completed by the provider:*

Provider agrees with the description of the matter?

YES  NO

Provider's comments on circumstances, relative importance of the matter, and so on.

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Provider representative discussed the preceding information with the appropriate individuals within the provider, including those charged with governance?

YES  NO

Team Captain's Additional Comments

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*Signatures*

*Dates*

Team Member

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Team Captain

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Provider Representative

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***Team captain should document the disposition of this MFC on the Disposition of Matter for Further Consideration (DMFC) Form in section 8800.***

## PRP Section 8960

### *Instructions for Use of Findings for Further Consideration Forms for Quality Control Materials Reviews*

- .01 The Finding for Further Consideration (FFC) form is prepared in connection with a Quality Control Materials (QCM) review if there are one or more matters that the reviewer believes results in (a) a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop or maintain reliable aids, or (b) the QCM reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass, but the results were not of such relative importance to include in a report with a QCM review rating of *pass with deficiencies* or *fail*. Each FFC form
- a. indicates which Matters for Further Consideration (MFCs) (by number) are addressed.
  - b. references the QCM description when the finding is specific to one of the titles listed in the report, if applicable.
  - c. includes a summary of the reviewer's description of the finding from the MFCs addressed by this FFC, including, when possible on QCM reviews, the underlying systemic cause of the finding.
  - d. indicates the type of finding: design, compliance or materials specific.
  - e. indicates whether the finding was noted in the prior QCM review report.
  - ~~f. includes the reviewer's recommendation(s) written in a manner such that the provider can appropriately respond.~~
  - ~~fg.~~ includes the provider's response. The provider should indicate whether it agrees with the finding and the reviewer's recommendation. The provider's response should describe:
    - its actions taken or planned to remediate findings in the provider's system of quality control and materials that have an error or omission, if applicable
    - its plans for notifying known users
    - timing of the remediation and notification

~~The provider's response should describe how the provider intends to implement the reviewer's recommendation (or alternative plan if the provider does not agree with the recommendation); the person(s) responsible for implementation; the timing of the implementation; and, if applicable, additional procedures to ensure that the finding is not repeated in the future.~~
  - ~~gh.~~ has the provider's additional response attached (if applicable).



*hi.* is signed by an individual charged with governance responsibility of the provider.

i. is submitted by the provider with the provider's response to the team captain as soon as possible to allow the QCM reviewer sufficient time to assess the provider's responses prior to the exit conference.

j. is signed by the team captain on the QCM review.

k. is part of the working papers and administrative files and is not a part of the reporting process.

~~l. is submitted by the provider to the team captain no later than two weeks after the exit conference, or by the QCM review's due date, whichever is earlier, so that it can be provided by the team captain with the applicable working papers to the National PRC.~~

*lm.* will be reviewed by the National PRC, with the applicable MFC forms, to determine if any additional provider action(s) will be required.

*mn.* is not tied to the reporting process or to the acceptance or completion of the QCM review, but as with all documents, needs to be completed properly before the review can be accepted. It is considered a part of the working papers and administrative files.

~~*no.* allows the reviewer to use professional judgment in writing the recommendation(s) to the finding as long as it is written in a way that it would be expected for the provider to understand what the finding is and why it happened, and the recommendation appears appropriate in the circumstances. Some components of the FFC form may need to be completed after other MFC forms and the Disposition of Matter for Further Consideration (DMFC) form are completed. If the MFC and FFC forms are completed in their entirety and include the elements described in this section, it is expected that the National PRC would not require any revisions to them.~~

*np.* along with the associated MFC forms and the DMFC form, is subject to oversight.

**.02** A QCM reviewer notes a *matter* as a result of his or her evaluation of the design of and compliance with the provider's system of quality control, or his or her evaluation of whether the materials submitted for review are reliable aids. A *finding* is one or more related matters that result from (a) a condition in the provider's system of quality control or compliance with it such that there is more than a remote possibility that the provider would not develop or maintain reliable aids, or (b) the QCM reviewer's conclusion that one or more of the materials tested do not encompass some portion of the components of the professional standards that the materials purport to encompass. A QCM reviewer will conclude whether one or more findings are a deficiency or significant deficiency.

**.03** The provider should be reminded to include comments beyond "yes" or "no" to indicate its agreement with the finding. ~~If the provider disagrees with the finding, it should detail the basis for their disagreement, including the references to professional standards that support that basis (if applicable).~~ If the provider agrees with the comment, it should be encouraged to provide information that can help the reviewer identify any systemic cause ~~underlying the finding.~~ If the provider disagrees with the finding, they should follow the disagreement guidance in paragraph .93 of the standards.

**.04** It is the provider's responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. However, ~~T~~the AICPA Peer Review Board encourages the provider to work with the team captain to develop recommendations remedial actions that

both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the QCM review. Experience shows that improvement is more likely to occur when the ~~remediation recommendations~~ describes specific actions to be taken. Therefore, a response limited to the provider's comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

**.05** FFC forms will be retained by the National PRC in the administrative files until the completion of the next QCM review. They will be considered during the performance of the next QCM review.

**.06** Reviewers are encouraged to use the electronic version. FFC forms may be submitted handwritten, however, the form must be legible, or it may be returned.

**.07**

### FINDING FOR FURTHER CONSIDERATION (FFC) FORM

FFC # \_\_\_\_\_

PROVIDER

\_\_\_\_\_

QCM REVIEW YEAR-END

\_\_\_\_\_

MFC(S) COVERED BY THIS FORM (List MFC Nos.)

\_\_\_\_\_

QCM DESCRIPTION <sup>fn 1</sup>

\_\_\_\_\_

REVIEWER'S ~~S~~ DESCRIPTION OF THE FINDING

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

SYSTEMIC CAUSE OF FINDING (if applicable)

\_\_\_\_\_

\_\_\_\_\_

<sup>fn 1</sup> The quality control materials description should be noted in instances when the finding is specific to one of the titles listed in the report.

Type of Finding:  Design  Compliance  Materials Specific

YES  NO

WERE SIMILAR FINDINGS NOTED IN THE PRIOR REVIEW?

~~REVIEWER'S RECOMMENDATION~~

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PROVIDER'S RESPONSE ←

The response should describe the following: [*a*] how the provider intends to implement the reviewer's recommendation [or alternative plan if the provider does not agree with the reviewer's recommendation]; [*b*] the person(s) responsible for implementation; [*c*] the timing of the implementation; and [*d*] if applicable, additional procedures to ensure that the finding is not repeated in the future.)

For quality control materials that are deemed unreliable:

- The provider's actions taken or planned to remediate the quality control materials identified on the FFC form as unreliable, including the provider's plan for notifying known users.

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For systemic issues unrelated to quality control materials that are deemed unreliable:

- The provider's actions taken or planned to remediate findings in the provider's system of quality control

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Timing of the remediation

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Provider's additional response is attached YES  NO

Authorized individual charged with governance responsibility of the provider:

Date:

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Team captain:

Date:

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**Note:** This document will be retained by the National PRC until the completion of the next QCM review and will be considered during the performance of that QCM review.

**Note:** If handwritten, this form must be legible, or it may be returned.

## Confidentiality of the Program

### Why is this on the Agenda?

The [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#) was issued on November 10, 2015. The STF has considered the comments received and incorporated changes as appropriate.

The changes to Standards paragraphs .133 and .146 and the related interpretations were proposed to be effective immediately upon approval by the PRB and therefore are being presented separately.

### *Changes to the Proposed Guidance*

After consideration of the comments received, the STF has included the following changes to that originally proposed in the exposure draft (highlighted in yellow within Agenda Items 1.2D-1 and 1.2D-2):

- Paragraph .133 and Interpretation 133a-1: Clarification that working papers should all be submitted to the AE by the team or review captain. Due to the changes discussed in Agenda Item 1.2B, the firm will no longer submit the letter of response, if applicable.
- Interpretation 133a-1: Addition of disagreements as a reason acceptance of reviews may be delayed.
- Interpretation 146-3: Clarification of what information may be provided related to noncooperation and what is meant by the firm may provide information itself as long as Paragraph .146 is complied with.

### *Key Aspects of Final Guidance*

- Peer reviews should be presented to the RAB within 120 days of receipt of the working papers by the AE. However, there are circumstances that may delay presentation.
- Administering entities and the AICPA are unable to provide information regarding a firm or its peer review to third parties unless allowable by paragraph .146 of the Standards or if permission is granted by the firm. If permission is granted by the firm, the AE or AICPA may disclose objective information only.

Conforming changes related to paragraphs .133 and .146 and the related changes to the interpretations were applied to the RAB Handbook. See Agenda Item 1.2D-3.

### **Feedback Received**

Refer to Agenda Item 1.2A for a summary of the comments received on the transparency exposure draft. The full comments can be found [here](#). Additional feedback was received from AATF and TRATF.

### **PRISM Impact**

None.

### **AE Impact**

The proposed changes support the AEs in assisting firms making information available to third parties. The guidance provides clear lines on what may and may not be provided.

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**Communications Plan**

A Peer Review Alert will be issued to inform peer reviewers of these changes in guidance. The changes will also be discussed with the AEs on an AE Bi-weekly call. The next version of the scheduling form will also include a question to allow firms to grant the AE and AICPA permission to provide information upon request.

**Manual Production Cycle (estimated)**

The changes for standards paragraphs .133 and .146, the related interpretations, and the RAB Handbook will be included in the May OPL update.

**Effective Date**

The changes will be effective upon approval.

**Task Force Consideration**

Approve the proposed changes to the Standards, Interpretations, and RAB Handbook as presented in Agenda Items 1.2D-1, 1.2D-2, and 1.2D-3.

Changes to the Peer Review Standards Related to Confidentiality of the Program

**Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities**

- .133 The committee's report acceptance body responsibilities include, but are not limited to:
- a. Ensuring that peer reviews are presented to an RAB in a timely manner, ordinarily within 120 days of the ~~later of~~ receipt of the working papers, ~~and~~ peer review report, and letter of response, if applicable, from the team captain or review captain ~~or, if applicable, the report with a peer review rating of *pass with deficiencies* or *fail* and the related letter of response from the reviewed firm~~, or within 60 days for Engagement Reviews meeting certain criteria (see [paragraphs .137-.138](#)).
  - b. Considering whether the review has been performed in accordance with these standards, interpretations, and related guidance materials.
  - c. Considering whether the report, and the response thereto, if applicable, are in accordance with these standards, interpretations, and related guidance materials, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its letter of response.
  - d. Determining whether it should require any remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to or in affirmation of those described by the reviewed firm in its letter of response. Examples of such corrective actions include, but are not limited to, requiring certain individuals to obtain specified kinds and specified amounts of CPE, requiring the firm to carry out more comprehensive monitoring procedures, or requiring it to engage another CPA to perform pre-issuance or post-issuance reviews of financial statements, reports, and accounting and audit documentation to attempt to strengthen the performance of the firm's personnel.
  - e. In relation to FFCs:
    1. Considering whether FFC (and associated MFC and DMFC) forms are prepared in accordance with these standards, interpretations, and related guidance materials, including whether the findings addressed on the FFC forms should have been included in a report with a peer review rating of *pass with deficiencies* or *fail*.
    2. Determining the adequacy of the plan the reviewed firm has represented that it has implemented or will implement in its response on the FFC form(s).
    3. Determining whether it should require an implementation plan in addition to or as an affirmation of the plan described by the reviewed firm in its response to the findings on the FFC form(s).
  - f. Ensuring that all corrective actions related to deficiencies or significant deficiencies in the peer review report and all implementation plans related to findings on FFC forms have been completed to the satisfaction of the committee.

- g. Ensuring that all firms within its jurisdiction have timely peer reviews and keeping track of the timing of the completion of corrective actions and implementation plans by all firms that the committee has required, including those that are overdue.

## Accepting System and Engagement Reviews

- .137 All System Reviews are required to be presented for committee consideration, but committee consideration is not always required in an Engagement Review. The technical reviewer should be delegated the authority from the committee to accept Engagement Reviews in certain circumstances (see interpretations).
- .138 Engagement Reviews that do not require committee consideration are required to be accepted by the technical reviewer within 60 days of receipt of the working papers and report from the review captain. If the committee does not delegate the authority to the technical reviewer to accept Engagement Reviews under the specific criteria indicated previously, the review is required to be presented to the committee within 60 days of receipt of the working papers and report from the review captain.

## Publicizing Peer Review Information

- .146 The reviewed firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until it has been advised that the report has been accepted (see interpretations) by the administering entity as meeting the requirements of the program. Neither the administering entity nor the AICPA shall make the results of the review, or information related to the acceptance or completion of the review, available to the public, except as authorized or permitted by the firm under certain circumstances (see interpretations). The administering entity and the AICPA may disclose the following information:
  - a. The firm's name and address
  - b. The firm's enrollment in the program
  - c. The date of acceptance and the period covered by the firm's most recently accepted peer review
  - d. If applicable, whether the firm's enrollment in the program has been dropped or terminated



**Changes to the Interpretations of the Peer Review Standards  
Related to Confidentiality of the Program**

**Fulfilling Peer Review Committee and Report Acceptance Body  
Responsibilities**

**133a-1**

*Question*—Paragraph .133 of the standards indicates that the committee is responsible for ensuring that peer reviews are presented to a RAB in a timely manner, ordinarily within 120 days of the receipt of the working papers, peer review report, and letter of response, if applicable, from the team captain or review captain. What is meant by “ordinarily within 120 days”?

*Interpretation*—Timely acceptance of peer reviews is important because delays may affect both the firm and peer reviewers within the firm. However, there are circumstances in which delays are unavoidable, including the following:

- a. Determination during technical review or presentation that an oversight should be performed
- b. Submitted peer review documentation requires significant revisions
- c. Additional inquiries of the firm or peer review team as a result of the technical review or presentation
- d. Enhanced oversight procedures.
- e. Disagreements between the reviewer, reviewed firm and RAB

**Publicizing Peer Review Information**

**146-3**

*Question*—Paragraph .146 states that neither the administering entity nor the AICPA shall make the results of the review, or other information related to the acceptance or completion of the review, available to the public, except as authorized or permitted by the firm under certain circumstances. There are situations in which third parties, ordinarily licensing bodies, request information related to an ongoing peer review from an administering entity or the AICPA. What information may an administering entity or the AICPA provide when such requests are made?

*Interpretation*—When a firm has authorized the administering entity or the AICPA in writing to provide specific information (in addition to the information in Paragraph .146) to third parties, the following (or similar) types of objective information about the review may be provided, if known:

- The date the review is or was scheduled to take place
- The name of the reviewing firm, team captain or review captain

- If the fieldwork on the peer review has commenced
- The date the exit conference was expected to or did occur
- A copy of any extension approval letters,
- Whether the peer review working papers have been received by the administering entity
- Whether a must select engagement was included in the scope as required by the Standards
- If a technical review is in process
- Whether the review has been presented to a Report Acceptance Body (RAB)
- The date the review is expected to be presented to a RAB
- If an overdue letter has been issued and the reason for the letter has not been resolved. Third parties should be specific as to the overdue letter that they are inquiring about such as overdue letters for failure to submit scheduling information.

Other written requests by the firm for the administering entity or AICPA to provide information or documents to a third party will be considered on a case by case basis by the administering entity or AICPA. However, neither the administering entity nor the AICPA will provide information that is subjective (due to different definitions/interpretations by third parties), even with firm authorization, such as the following:

- Stating solely that the review is “in process” or responding to an inquiry solely regarding what the “general status” of a peer review is.
- The peer review report rating prior to the peer review’s acceptance
- Whether there are indications that the firm, reviewing firm, team captain or review captain are cooperating (or not cooperating) with the AICPA or administering entity
- An indication of the quality or completeness of peer review working papers received by the administering entity
- Reasons why peer review working papers, implementation plans, or corrective actions are late
- Whether a firm is close to submitting documents or completing implementation plans or corrective actions
- Reasons for, or the likely outcome if the firm is going through fair procedures, such as a hearing, to determine whether it is cooperating with the AICPA or administering entity.

Paragraph .146 states that the firm should not publicize the results of the review or distribute copies of the peer review reports to its personnel, clients, or others until it has been advised that the report has been accepted (see interpretations) by the administering entity as meeting the requirements of the program. Where appropriate, the firm may discuss information in this Interpretation with third parties at its discretion as long as Paragraph.146 is

complied with such as not disclosing the report rating until review has been accepted.

**Changes to the RAB Handbook  
Related to Confidentiality of the Program**

## Chapter 1

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

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

- A. Ensure that peer reviews are presented to a RAB in a timely manner, ordinarily within 120 days of the ~~later of (1)~~ receipt of the working papers, ~~and~~ peer review report, and letter of response, if applicable, from the team captain or review captain ~~or (2) if applicable, the report with a peer review rating of pass with deficiencies or fail and the related letter of response from the reviewed firm~~, or within 60 days for Engagement Reviews meeting certain criteria (see chapter 2, section V.B) (sec. 1000 par. .133a). Timely acceptance of peer reviews is important because delays may affect both the firm and peer reviewers within the firm. However, there are circumstances in which delays are unavoidable, including the following:
1. Determination during technical review or presentation than an oversight should be performed
  2. Submitted peer review documentation requires significant revisions
  3. Additional inquiries of the firm or peer review team as a result of the technical review or presentation
  4. Enhanced oversight procedures
  5. Disagreements between reviewer, reviewed firm and RAB

#### V. Independence and Confidentiality

- B. Publicizing Peer Review Information

Neither the administering entity nor the AICPA shall make the results of the review, or information related to the acceptance or completion of the review, available to the public, except as authorized or permitted by the firm under certain circumstances. The administering entity and the AICPA may disclose the following information (sec. 1000 par. .146):

1. The firm's name and address (sec. 1000 par. .146a)
2. The firm's enrollment in the program (sec. 1000 par. .146b)
3. The date of acceptance and the period covered by the firm's most recently accepted peer review (sec. 1000 par. .146c)
4. If applicable, whether the firm's enrollment in the program has been dropped or terminated (sec. 1000 par. .146d)

#### Peer Reviews That Are in Process

~~In order to renew its CPA license or equivalent, firms are sometimes required to submit certain accepted peer review results to their respective state boards of accountancy (SBOA)~~

~~or simply acknowledge for their SBOAs that its most recent review was accepted or completed. However, there are occasions that at the time of the license renewal due date, a firm's peer review has not yet been accepted or completed. Rather than the SBOA not renewing a firm's license, the SBOA will usually be satisfied if the administering entity can affirm for the SBOA that the firm's peer review is in certain stages of the process.~~

~~To facilitate the license renewal and only with a written request from an authorized representative from the reviewed firm, the reviewed firm may grant permission to the administering entity to inform specified SBOAs that its peer review "is in process" or more specifically is in any one of the following stages of the process:~~

- ~~1. The scheduling of the peer review is reflected in the computer system.~~
- ~~2. The peer reviewer's working papers have been received by the administering entity.~~
- ~~3. We anticipate the peer review being presented at a peer review committee meeting in the near future.~~
- ~~4. The peer review has just been accepted by the peer review committee.~~

~~If an administering entity is considering including any other information in the letter, it must contact AICPA staff prior to any communication with the SBOAs.~~

When a firm has authorized the administering entity or the AICPA in writing to provide specific information (in addition to the information in Paragraph .146) to third parties, the following (or similar) types of objective information about the review may be provided, if known:

1. The date the review is or was scheduled to take place
2. The name of the reviewing firm, team captain or review captain
3. If the fieldwork on the peer review has commenced
4. The date the exit conference was expected to or did occur
5. A copy of any extension approval letters.
6. Whether the peer review working papers have been received by the administering entity
7. Whether a must select engagement was included in the scope as required by the Standards
8. If a technical review is in process
9. Whether the review has been presented to a Report Acceptance Body (RAB)
10. The date the review is expected to be presented to a RAB
11. If an overdue letter has been issued and the reason for the letter has not been addressed. Third parties should be specific regarding the reason for the overdue letter that they are inquiring about such as overdue letters for failure to submit scheduling information.

Other written requests by the firm for the administering entity or AICPA to provide information or documents to a third party will be considered on a case by case basis by the administering entity or AICPA. However, neither the administering entity nor the AICPA will provide information that is subjective (due to different definitions/interpretations by third parties), even with firm authorization, such as the following:

1. Stating solely that the review is "in process" or responding to an inquiry solely regarding what the "general status" of a peer review is.
2. The peer review report rating prior to the peer review's acceptance
3. Whether there are indications that the firm, reviewing firm, team captain or review captain are cooperating (or not cooperating) with the AICPA or administering entity

4. An indication of the quality or completeness of peer review working papers received by the administering entity
5. Reasons why peer review working papers, implementation plans, or corrective actions are late
6. Whether a firm is close to submitting documents or completing implementation plans or corrective actions
- 4.7. Reasons for, or the likely outcome if the firm is going through fair procedures to determine whether it is cooperating with the AICPA or administering entity.

**AICPA Peer Review Program**  
**GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES**  
**FOR FIRMS WITH TWO OR MORE PERSONNEL<sup>1</sup>**

Firm	Prepared By	Date
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**.01** This questionnaire should be completed by the reviewer when evaluating the design of the firm’s quality control policies and procedures **during the planning phase of the review**. The questionnaire has been developed for firms with two or more personnel.

**.02** When evaluating the firm’s quality control policies and procedures, the reviewer should use his or her professional judgment to determine whether the firm’s system of quality control was designed to comply with QC section 10. In so doing, the reviewer will review considerations from the QC section 10 application guidance and from other sources.

**.03** If the firm’s documented quality control policies and procedures (QCPP) do not address one or more of the considerations, this may represent a risk that the firm’s policies and procedures are not suitably designed to comply with the QC section 10. The reviewer should consider whether that risk is mitigated by the firm’s policies and procedures and document that consideration.

**.04** Any “no” answers identified during the evaluation of the firm’s quality control policies and procedures should be documented in Appendix A.

Standard Requirement	Firm’s documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<b>A. Leadership Responsibilities for Quality Within the Firm (“Tone at the Top”)</b>				
1. The firm should document its policies and procedures and communicate them to the firm’s personnel (QC 10.18)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm’s QCPP are designed to comply with the standard, consider whether the firm’s documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm has communicated a description of the firm’s QCPP to all firm personnel, the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with the QCPP. (QC 10.A2-.A3)</i></li> <li>• <i>The firm’s documented QCPP are kept up-to-date.</i></li> </ul>				

<sup>1</sup> The term *personnel* is defined in QC section 10, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*) as all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs (including leased and per diem employees who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or attestation engagements, or those professionals who have the partner-level or manager-level responsibility for the overall supervision or review of such engagements).

<sup>2</sup> Document disposition of “no” answers in appendix A.

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>All firm personnel receive prompt notification of any changes to the firm's QCPP, and related training where appropriate.</li> </ul>				
2. The firm should establish policies and procedures designed to promote an internal culture based on recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's leadership (managing partner or board of managing partners, CEO, or equivalent) to assume ultimate responsibility for the firm's system of quality control. (QC 10.19)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>All levels of the firm's management promote a quality-oriented internal culture through clear, consistent and frequent actions and messages that emphasize the firm's QCPP and the requirements to perform work that complies with professional standards and applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. (QC 10.A4-.A5)</li> <li>The firm's policies and procedures address performance evaluation, compensation, and advancement (including incentive systems) with regard to its personnel in order to demonstrate the firm's overarching commitment to quality. (QC 10.A4-.A5)</li> <li>The firm assigns management responsibilities so that commercial considerations do not override the quality of the work performed. (QC 10.A4-.A5)</li> <li>The firm provides sufficient and appropriate resources for the development, documentation, and support of its quality control policies and procedures. (QC 10.A4-.A5)</li> </ul>				
3. The firm should establish policies and procedures designed to provide it with reasonable assurance that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's leadership has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (QC 10.20)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>B. Relevant Ethical Requirements</b>				
1. The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (QC 10.21)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>The firm has assigned an individual with responsibility for providing guidance, answering questions, monitoring compliance, and resolving matters with respect to independence, integrity, and objectivity.</li> <li>The firm provides its personnel with the list of clients and any related entities and informs them on a timely basis as to any changes in the firm's clients and any related entities to which independence policies apply.</li> </ul>				



Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>If the firm accepts an engagement where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement, written confirmations are obtained regarding the other firm's independence with respect to audit engagements and either written or oral confirmations obtained for review or attestation engagements.</li> <li>If the firm identifies circumstances for which documentation of the resolution of independence, integrity, and objectivity questions is required, such documentation is retained for a specified period of time.</li> <li>If the firm provides non-attest services to accounting and auditing clients, the firm must meet all the requirements of ET 1.295 for all such clients.</li> <li>If the firm becomes a member of a network [ET sec. 92 par. .22], the firm will meet all of the requirements of Ethics Interpretation No. 101-17 and monitor its independence with respect to financial statement audits, reviews and other attest engagements performed by other members of the network.</li> </ul>				
2. The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm; its personnel; and, when applicable, others subject to independence requirements (including network firm personnel) maintain independence when required by relevant ethical requirements. (QC 10.22)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. The firm's policies and procedures enable it to communicate its independence requirements to its personnel and, when applicable, others subject to them. (QC 10.22a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. The firm's policies and procedures enable it to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards or, if considered appropriate, to withdraw from the engagement when withdrawal is possible under applicable law or regulation. (QC 10.22b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The firm has established criteria for determining when it is necessary to consult with individuals outside the firm on independence, integrity, or objectivity concerns.</i></li> </ul>				
5. The firm's policies and procedures require engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall effect, if any, on independence requirements. (QC 10.23a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. The firm's policies and procedures require personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken. (QC 10.23b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
7. The firm's policies and procedures require the accumulation and communication of relevant information to appropriate personnel so that the firm and its personnel can readily determine whether they satisfy independence requirements, the firm can maintain and update information relating to independence, and the firm can take appropriate action regarding identified threats to independence that are not at an acceptable level. (QC.10.23c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
8. The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements and to enable it to take appropriate actions to resolve such situations. (QC 10.24)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The firm designates responsibility to appropriate personnel for periodically reviewing unbilled or unpaid fees from clients to ascertain whether any outstanding amounts may impair the firm's independence.</i></li> <li><i>The firm evaluates other possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time. When a familiarity threat is identified, the firm takes appropriate actions to eliminate those threats or reduce them to an acceptable level by applying safeguards.</i></li> </ul>				
9. The firm's policies and procedures require personnel to promptly notify the firm of independence breaches of which they become aware. (QC 10.24a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
10. The firm's policies and procedures require the firm to promptly communicate identified breaches of independence policies and procedures to the engagement partner who, with the firm, must address the breach, and other relevant personnel in the firm and, when appropriate, the network and those subject to the independence requirements who need to take appropriate action. (QC 10.24b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
11. The firm's policies and procedures require prompt communication to the firm, if necessary, by the engagement partner and other relevant personnel of the actions taken to resolve identified breaches of independence policies and procedures so that the firm can determine whether it should take further action. (QC 10.24c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
12. At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the requirements set forth in Rule 101, Independence (ET sec. 101 par. .01), and its related interpretations and rulings of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. (QC 10.25)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
13. The firm should establish policies and procedures for all audit or attestation engagements for which regulatory or other authorities require the rotation of personnel after a specified period, in compliance with such requirements. (QC 10.26)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>C. Acceptance and Continuance of Client Relationships and Specific Engagements</b>				
1. The firm's policies and procedures provide reasonable assurance that it will undertake or continue relationships and engagements only when the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so. (QC 10.27a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>In considering whether the firm has the competence, capabilities, and resources to undertake a new engagement from a new or existing client, the firm reviews the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, including whether</i> <ul style="list-style-type: none"> <li>○ <i>firm personnel have knowledge of relevant industries or subject matters or the ability to effectively gain the necessary knowledge;</i></li> <li>○ <i>firm personnel have experience with relevant regulatory or reporting requirements or the ability to effectively gain the necessary competencies;</i></li> <li>○ <i>specialists are available, if needed;</i></li> <li>○ <i>individuals meeting the criteria and eligibility requirements to perform an engagement quality control review are available, when applicable; and</i></li> <li>○ <i>the firm is able to complete the engagement within the reporting deadline. (QC 10.A11)</i></li> </ul> </li> <li>• <i>The firm assesses the risks associated with the engagement before making an acceptance or continuance decision. For example, the firm may consider the complexity of the engagement, the degree of specialization or regulation in the prospective client's industry, the entity's ability to continue as a going concern, the amount of time and effort required to complete the engagement, and the need for additional firm or individual licenses.</i></li> <li>• <i>Each client relationship and engagement is considered by an individual other than the engagement partner to determine whether the engagement should be accepted or continued based on the competence, capabilities and resources of the firm.</i></li> </ul>				
2. The firm's policies and procedures provide reasonable assurance that it will undertake or continue relationships and engagements only when the firm can comply with legal and relevant ethical requirements. (QC 10.27b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. The firm's policies and procedures provide reasonable assurance that it will undertake or continue relationships and engagements only when the firm has considered the integrity of the client and does not have information that	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
would lead it to conclude that the client lacks integrity. (QC 10.27c)				
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm considers the following when assessing the integrity of a client:</i> <ul style="list-style-type: none"> <li>○ <i>The identity and business reputation of the client's principal owners, key management, and those charged with governance</i></li> <li>○ <i>The nature of the client's operations, including its business practices</i></li> <li>○ <i>Information concerning the attitude of the client's principal owners, key management, and those charged with governance toward such matters as internal control or aggressive interpretation of accounting standards</i></li> <li>○ <i>Indications of an inappropriate limitation in the scope of the work</i></li> <li>○ <i>Indications that the client might be involved in money laundering or other criminal activities</i></li> <li>○ <i>The reasons for the proposed appointment of the firm and nonreappointment of the previous firm (QC 10.A12-.A13)</i></li> </ul> </li> <li>• <i>The firm utilizes the following sources of information in assessing the integrity of a client:</i> <ul style="list-style-type: none"> <li>○ <i>Communications with existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements, and discussions with other third parties</i></li> <li>○ <i>Inquiry of other firm personnel or third parties, such as bankers, legal counsel, and industry peers</i></li> <li>○ <i>Background searches of relevant databases (QC 10.A12-.A13)</i></li> </ul> </li> </ul>				
4. The firm's policies and procedures require the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (QC 10.28a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm has considered significant issues that have arisen during the current or previous engagements and their implications for continuing the relationship. For example, a client may have started to expand its business into an area where the firm does not possess, and cannot obtain, necessary expertise. (QC 10.A14)</i></li> </ul>				
5. The firm's policies and procedures require the firm to determine whether it is appropriate to accept the engagement if a potential conflict of interest is identified in accepting an engagement from a new or an existing client. (QC 10.28b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. If issues have been identified and the firm decides to accept or continue the client relationship or a specific engagement, the firm's policies and proce-	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
dures require the firm to consider whether ethical requirements that exist under Interpretation No. 102-2, "Conflicts of Interest," under Rule 102, Integrity and Objectivity (ET sec. 102 par. .03), apply, such as disclosure of the relationship to the client and other appropriate parties, and document how the issues were resolved. (QC 10.28c)				
7. To minimize the risk of misunderstandings regarding the nature, scope, and limitations of the services to be performed, the firm should establish policies and procedures that provide for obtaining an understanding with the client regarding those services. (QC 10.29)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
8. The firm should establish policies and procedures on continuing an engagement and the client relationship that address the circumstances when the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures should include consideration of the professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to regulatory authorities, and the possibility of withdrawing from the engagement or from both the engagement and the client relationship. (QC 10.30)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm has established policies and procedures on withdrawal which address issues that include the following:</i> <ul style="list-style-type: none"> <li>○ <i>Discussing with the appropriate level of the client's management and those charged with governance the appropriate action that the firm might take based on the relevant facts and circumstances</i></li> <li>○ <i>If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with governance withdrawal from the engagement or from both the engagement and the client relationship and the reasons for the withdrawal</i></li> <li>○ <i>Considering whether there is a professional, legal, or regulatory requirement for the firm to remain in place or for the firm to report the withdrawal from the engagement or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities</i></li> <li>○ <i>Documenting significant matters, consultations, conclusions, and the basis for the conclusions (QC 10.A16).</i></li> </ul> </li> </ul>				
<b>D. Human Resources</b>				
1. The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enable the firm to issue reports that are appropriate in the circumstances. (QC 10.31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm's recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm's work and possess the appropriate characteristics to enable them to perform competently. (QC 10.A17-.A22)</i></li> <li>• <i>The firm's policies and procedures emphasize the need for all levels of firm personnel to participate in general and industry-specific continuing professional education (CPE) and other professional development activities that enable them to fulfill responsibilities assigned and to satisfy applicable CPE requirements of the AICPA and regulatory agencies. (QC 10.A17-.A22)</i></li> <li>• <i>The firm's policies and procedures place importance on passing the Uniform CPA Examination. (QC 10.A17-.A22)</i></li> <li>• <i>The firm uses a suitably qualified external person when appropriate (for example, when internal technical and training resources are unavailable). (QC 10.A17-.A22)</i></li> <li>• <i>The firm's performance evaluation, compensation, and advancement procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. (QC 10.A17-.A22)</i></li> <li>• <i>The firm's has established policies and procedures which</i> <ul style="list-style-type: none"> <li>○ <i>make personnel aware of the firm's expectations regarding performance and ethical principles;</i></li> <li>○ <i>provide personnel with an evaluation of, and counseling on, performance, progress, and career development; and</i></li> <li>○ <i>help personnel understand that their compensation and advancement to positions of greater responsibility depend upon, among other things, performance quality and adherence to ethical principles and that failure to comply with the firm's policies and procedures may result in disciplinary action. (QC 10.A17-.A22)</i></li> </ul> </li> <li>• <i>The firm has an individual or individuals responsible for the firm's hiring and human resources management, including evaluation of personnel needs, establishment of hiring objectives, and providing final approval.</i></li> <li>• <i>The firm has criteria for determining which individuals will be involved in the interviewing and hiring process.</i></li> <li>• <i>The firm's hiring criteria address the attributes, achievements, and experiences desired in entry-level and experienced personnel to enable them to perform competently within the firm.</i></li> <li>• <i>The firm has an orientation and training policy for new hires.</i></li> <li>• <i>The firm encourages personnel to participate in other professional development activities, such as taking graduate-level courses, becoming members of professional organizations, serving on professional committees, and/or writing for professional publications.</i></li> <li>• <i>The firm has an individual or individuals responsible for the firm's CPE and professional development activities, including maintaining CPE records and course materials for personnel.</i></li> <li>• <i>When a senior member of an engagement team does not have recent experience performing in an industry or area to which he or she has been assigned, the individual obtains appropriate education and/or experience before planning procedures are performed.</i></li> </ul>				

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	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>The firm informs personnel of changes in accounting and auditing standards, independence, integrity, and objectivity requirements and the firm's technical policies and procedures with respect to them (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement).</li> </ul>				
2. The firm's policies and procedures should provide that personnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities that they will be called on to assume. <b>(QC 10.32)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>There are different levels of responsibility within the firm (for example, partner, manager, and senior).</li> <li>The firm establishes, documents, communicates and adheres to evaluation and advancement criteria for personnel at all levels.</li> <li>The firm establishes compensation and advancement criteria for partners and senior-level staff that address the following: <ul style="list-style-type: none"> <li>Feedback based on monitoring results, peer reviews, and regulatory inspections</li> <li>Appropriate identification of significant and emerging accounting and auditing issues</li> <li>Appropriate consultation with firm experts when challenging issues arise</li> </ul> </li> <li>The firm designates an individual with responsibility for making advancement and termination decisions, including identifying responsibilities and requirements for evaluation at each level and deciding who will prepare evaluations, and developing the evaluation criteria for each professional classification (including partners).</li> <li>The firm designates responsibility for periodically evaluating the performance of personnel and advising them of their progress in the firm.</li> <li>At least annually, the firm summarizes and reviews with personnel the evaluation of their performance, including an assessment of their knowledge, skills and abilities (competencies), and progress with the firm, that includes a discussion regarding performance, future objectives of the firm and the individual, assignment preferences, and career opportunities.</li> </ul>				
3. The firm should assign responsibility for each engagement to an engagement partner and should establish policies and procedures requiring that the identity and role of the engagement partner are communicated to management and those charged with governance; the engagement partner has the appropriate competence, capabilities, and authority to perform the role; and the responsibilities of the engagement partner are clearly defined and communicated to that individual. <b>(QC 10.33)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>The characteristics of the client, industry, and the kind of service being provided are considered by the firm before determining the nature and extent of competencies that are expected of the engagement partner. <b>(QC</b></li> </ul>				

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	Yes	No <sup>2</sup>	N/A	
<p><b>10.A25-.A30)</b></p> <ul style="list-style-type: none"> <li>Engagement partners have obtained an understanding of the role of a system of quality control and the Code of Professional Conduct, an understanding of the service to be performed, technical proficiency, familiarity with the industry, professional judgment, and an understanding of the organization's IT systems. (QC 10.A25-.A30)</li> <li>The firm monitors the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities. (QC 10.A25-.A30)</li> <li>When an engagement is found to be materially non-conforming after report issuance (for example, through firm monitoring, peer review or regulatory inspection), the firm takes appropriate action. Such action may call for the firm to either (a) require the engagement partner to take relevant CPE and require EQCR on the engagement partner's future engagements in that industry or area, (b) prohibit the engagement partner from performing future engagements in that industry or area, or (c) dismiss the engagement partner.</li> </ul>				
<p>4. The firm should establish policies and procedures to assign appropriate personnel with the necessary competence and capabilities to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enable the firm to issue reports that are appropriate in the circumstances. (QC 10.34)</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>In assigning engagement teams and determining the level of supervision required, the firm considers the engagement team's</i> <ul style="list-style-type: none"> <li><i>understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;</i></li> <li><i>understanding of professional standards and legal and regulatory requirements;</i></li> <li><i>technical knowledge and expertise, including knowledge of relevant IT;</i></li> <li><i>knowledge of relevant industries in which the clients operate;</i></li> <li><i>ability to apply professional judgment; and</i></li> <li><i>understanding of the firm's quality control policies and procedures. (QC 10.A31)</i></li> </ul> </li> <li><i>A qualified individual has been designated with responsibility for the assignment of personnel to engagements.</i></li> <li><i>The party responsible for engagement team assignment is aware of the factors which should be considered in forming an engagement team. Such factors may include engagement size and complexity; specialized experience or expertise required; personnel availability and involvement of supervisory personnel; timing of the work to be performed; continuity and rotation of personnel; opportunities for on-the-job training; previous knowledge; skills and abilities gained through other experience; and situations where independence or objectivity concerns exist.</i></li> <li><i>The engagement partner approves the composition of the engagement team before any procedures are performed.</i></li> <li><i>Individuals are maintaining the appropriate licenses to perform the engagements they are assigned, including for</i></li> </ul>				



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	Yes	No <sup>2</sup>	N/A	
<p><i>states other than where the individual primarily practices public accounting.</i></p> <ul style="list-style-type: none"> <li>When the firm accepts an audit in an industry that the firm's personnel have not previously audited, and professional education is not sufficient for the engagement team to obtain the necessary competence to perform the engagement, the firm engages a suitably qualified external person to assist with the performance of the audit as a member of the engagement team.</li> </ul>				
<b>E. Engagement Performance</b>				
<p>1. The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are consistently performed in accordance with professional standards and applicable legal and regulatory requirements and that the firm issues reports that are appropriate in the circumstances. Such policies and procedures should include matters relevant to promoting consistency in the quality of engagement performance, supervision responsibilities and review responsibilities (QC 10.35)</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The firm promotes consistency in the quality of engagement performance through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. (QC 10.A32-.A35)</i></li> <li><i>Those with engagement supervision responsibilities will:</i> <ul style="list-style-type: none"> <li><i>track the progress of the engagement;</i></li> <li><i>consider the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;</i></li> <li><i>address significant findings and issues arising during the engagement, considering their significance, and modifying the planned approach appropriately; and</i></li> <li><i>identify matters for consultation or consideration by more experienced engagement team members during the engagement. (QC 10.A32-.A35)</i></li> </ul> </li> <li><i>Those with engagement review responsibilities will consider whether:</i> <ul style="list-style-type: none"> <li><i>the work has been performed in accordance with professional standards and applicable legal and regulatory requirements;</i></li> <li><i>significant findings and issues have been raised for further consideration;</i></li> <li><i>appropriate consultations have taken place and the resulting conclusions have been documented and implemented;</i></li> <li><i>the nature, timing, and extent of the work performed is appropriate and without need for revision;</i></li> <li><i>the work performed supports the conclusions reached and is appropriately documented;</i></li> </ul> </li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>o the evidence obtained is sufficient and appropriate to support the report; and</li> <li>o the objectives of the engagement procedures have been achieved. (QC 10.A32-.A35)</li> <li>• If the firm develops its own quality control materials (QCM) (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires and the like) to assist with engagement performance, the firm has established policies and procedures for <ul style="list-style-type: none"> <li>o developing materials that are reliable and suitable for the firm's practice, and</li> <li>o maintaining the reliability and suitability of the materials through updates and revisions.</li> </ul> </li> <li>• If the firm uses third-party QCM (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with engagement performance, the firm has established policies and procedures for <ul style="list-style-type: none"> <li>o identifying and adopting materials that are reliable, modifying as necessary to make them suitable for the firm's practice.</li> <li>o maintaining the reliability and suitability of the materials through updates and revisions.</li> </ul> </li> <li>• If the firm practices in a must-select industry or area, a partner is designated with firm-wide responsibility for the quality of the firm's practice in that area. That partner must maintain current experience and education in the must-select industry or area.</li> <li>• The firm establishes documented procedures to follow when the firm uses other offices or correspondents for audit or accounting engagements. Those procedures address the following: <ul style="list-style-type: none"> <li>o The form in which instructions are given to other offices or correspondents, and</li> <li>o The extent to which their work is reviewed.</li> </ul> </li> <li>• The firm maintains the appropriate firm license(s), including states other than where its main office is domiciled. In all states where the firm practices, the firm <ul style="list-style-type: none"> <li>o is licensed under the same name(s) under which it practices;</li> <li>o must obtain license(s) which are effective before any reports are issued in the state;</li> <li>o considers variations in licensing bodies' rules and regulations and how they impact the firm's need to be licensed in that state; and</li> <li>o addresses any restrictions on practice imposed by the licensing bodies.</li> </ul> </li> </ul>				
2. The firm's review responsibility policies and procedures should be determined on the basis that suitably experienced engagement team members, which may include the engagement partner, review work performed by other engagement team members. (QC 10.36)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</p> <ul style="list-style-type: none"> <li>• The firm requires that a partner of the firm ultimately be responsible for each engagement (certain standards may require partner responsibility).</li> </ul>				

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	Yes	No <sup>2</sup>	N/A	
3. The firm's policies and procedures are designed to provide it with reasonable assurance that appropriate consultation takes place on difficult or contentious issues. (QC 10.37a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>Consultation is recognized as a strength and personnel are encouraged to consult on difficult or contentious issues. (QC 10.A37-.A38)</i></li> <li>• <i>When a consultation takes place, those consulted are given all the relevant facts that will enable them to provide informed advice and have appropriate knowledge, authority and experience. (QC 10.A37-.A38)</i></li> <li>• <i>The firm designates individuals within and outside the firm as consultants in certain areas.</i></li> <li>• <i>The firm requires the person ultimately responsible for the engagement to determine the need to consult.</i></li> <li>• <i>The firm identifies circumstances when firm personnel are expected to consult and defines criteria which require consultation with outside parties.</i></li> </ul>				
4. The firm's policies and procedures are designed to provide it with reasonable assurance that sufficient resources are available to enable appropriate consultation to take place. (QC 10.37b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm maintains or provides its personnel access to adequate and current reference materials, including materials related to its clients. Those materials include the most current versions of the following:</i> <ul style="list-style-type: none"> <li>o <i>AICPA Professional Standards</i></li> <li>o <i>AICPA A&amp;A guides relevant to all industries in which the firm practices</i></li> <li>o <i>FASB pronouncements</i></li> <li>o <i>Any other pronouncements relevant to the firm's practice (for example, SEC pronouncements, GASB pronouncements, Government Auditing Standards (the "Yellow Book"), and other government audit guides relevant to the firm's practice)</i></li> </ul> </li> </ul>				
5. The firm's policies and procedures are designed to provide it with reasonable assurance that the nature and scope of such consultations are documented and are agreed upon by both the individual seeking consultation and the individual consulted. (QC 10.37c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. The firm's policies and procedures are designed to provide it with reasonable assurance that the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented. (QC 10.37d)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's</i></p>				

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	Yes	No <sup>2</sup>	N/A	
<p><i>documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm requires documentation of the following for a consultation:</i> <ul style="list-style-type: none"> <li>○ <i>All relevant facts and circumstances</i></li> <li>○ <i>References to professional literature used in the determination</i></li> <li>○ <i>Conclusions reached, and how they were implemented</i></li> <li>○ <i>Signatures of engagement partner and consultant</i></li> <li>○ <i>Reference to the engagement working papers</i></li> </ul> </li> </ul>				
7. The firm should establish criteria against which all engagements covered by this section should be evaluated to determine whether an engagement quality control review should be performed. <b>(QC 10.38)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The structure and nature of the firm's practice are given sufficient, appropriate consideration in establishing the criteria for determining which engagements are to be subject to an engagement quality control review. The firm also considers:</i> <ul style="list-style-type: none"> <li>○ <i>The nature of the engagement, including the extent to which it involves a matter of public interest;</i></li> <li>○ <i>The identification of unusual circumstances or risks in an engagement or class of engagements; and</i></li> <li>○ <i>Whether laws or regulations require an engagement quality control review. <b>(QC 10.A41)</b></i></li> </ul> </li> <li>• <i>The criteria established by the firm require an engagement quality control review to be performed for any audit engagement in an industry where the firm's practice is limited and the firm's personnel have little or no experience.</i></li> </ul>				
8. The firm's policies and procedures should require that if an engagement meets the criteria established, an engagement quality control review should be performed for that engagement. <b>(QC 10.39)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
9. The firm should establish policies and procedures setting out the nature, timing, and extent of an engagement quality control review. Such policies and procedures should require that the engagement quality control review be completed before the report is released. <b>(QC 10.40)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
10. The firm requires the engagement quality control review to include discussion of significant findings and issues with the engagement partner. <b>(QC 10.41a)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
11. The firm requires the engagement quality control review to include reading the financial statements or other subject matter information and the proposed report. <b>(QC 10.41b)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

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12. The firm requires the engagement quality control review to include review of selected engagement documentation relating to significant judgments that the engagement team made and the related conclusions it reached. (QC 10.41c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
13. The firm requires the engagement quality control review to include evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (QC 10.41d)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
14. The firm should establish policies and procedures to address the appointment of engagement quality control reviewers and to establish their eligibility through the technical qualifications required to perform the role, including the necessary experience and authority, and the degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (QC 10.42)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
15. The firm should establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. Such policies and procedures should provide that although the engagement quality control reviewer is not a member of the engagement team, the engagement quality control reviewer should satisfy the independence requirements relating to the engagements reviewed. (QC 10.43)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
16. The firm's policies and procedures should provide that the engagement quality control reviewer when practicable, is not selected by the engagement partner; does not otherwise participate in the performance of the engagement during the period of review; does not make decisions for the engagement team; and is not subject to other considerations that would threaten the reviewer's objectivity. (QC 10.43)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
17. The firm's policies and procedures should provide for the replacement of the engagement quality control reviewer when the reviewer's ability to perform an objective review is likely to have been impaired. (QC 10.44)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
18. The firm should establish policies and procedures on documentation of the engagement quality control review, which require documentation that the procedures required by the firm's policies on engagement quality control review have been performed; the engagement quality control review has been completed before the report is released; and the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments that the engagement team made and the conclusions it reached were not appropriate. (QC 10.45)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
19. The firm should establish policies and procedures for addressing and resolving differences of opinion within the engagement team; with those consulted; and, when applicable, between the engagement partner and the	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
engagement quality control reviewer (QC 10.46)				
20. Such policies and procedures should enable a member of the engagement team to document that member's disagreement with the conclusions reached after appropriate consultation (QC 10.47)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
21. Such policies and procedures should require that conclusions reached be documented and implemented and that the report not be released until the matter is resolved (QC 10.48)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
22. The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been released. (QC 10.49)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The firm complies with professional standards, laws or regulation that prescribe time limits by which the assembly of final engagement files must be completed. When no such time limits are prescribed, the firm establishes time limits that reflect the need to complete the assembly of final engagement files on a timely basis. (QC 10.A53)</i></li> </ul>				
23. The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation.(QC 10.50)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
24. The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm, professional standards, laws, and regulations. (QC 10.51)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>F. Monitoring</b>				
1. The firm should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. (QC 10.52)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The firm's monitoring policies and procedures are designed to evaluate</i> <ul style="list-style-type: none"> <li><i>adherence to professional standards and applicable legal and regulatory requirements;</i></li> <li><i>whether the system of quality control has been appropriately designed and effectively implemented; and</i></li> <li><i>whether the firm's quality control policies and procedures have been operating effectively so that reports that are issued by the firm are appropriate in the circumstances. (QC 10.A63-.A65)</i></li> </ul> </li> </ul>				

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	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>• <i>The firm's monitoring policies and procedures include the following:</i> <ul style="list-style-type: none"> <li>○ <i>Review of selected administrative and personnel records pertaining to the quality control elements</i></li> <li>○ <i>Discussions with the firm's personnel</i></li> <li>○ <i>Determination of corrective actions to be taken and improvements to be made in the system, including providing feedback into the firm's policies and procedures relating to education and training</i></li> <li>○ <i>Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with the system</i></li> <li>○ <i>Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures (QC 10.A63-.A65)</i></li> </ul> </li> <li>• <i>The firm's monitoring policies and procedures also include assessments of:</i> <ul style="list-style-type: none"> <li>○ <i>The appropriateness of the firm's guidance materials and any practice aids</i></li> <li>○ <i>New developments in professional standards and legal and regulatory requirements and how they are reflected in the firm's policies and procedures, when appropriate</i></li> <li>○ <i>Written confirmation of compliance with policies and procedures on independence</i></li> <li>○ <i>The effectiveness of continuing professional development, including training</i></li> <li>○ <i>Decisions related to acceptance and continuance of client relationships and specific engagements</i></li> <li>○ <i>Firm personnel's understanding of the firm's quality control policies and procedures and implementation thereof (QC 10.A63-.A65)</i></li> </ul> </li> </ul>				
2. The firm's monitoring process should include an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements. (QC 10.52a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
3. The firm's monitoring process should require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility. (QC 10.52b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>If the firm has a limited number of persons with sufficient and appropriate experience and authority to perform inspections, the firm engages a suitably qualified external person or another firm to perform engagement inspections and other monitoring procedures. (QC 10.A73)</i></li> <li>• <i>Individuals responsible for the inspection and other monitoring procedures have sufficient experience and authority to assume that responsibility, including</i> <ul style="list-style-type: none"> <li>○ <i>sufficient training, experience and competence to execute their responsibilities;</i></li> <li>○ <i>no history of limitations or restrictions on their ability to practice public ac-counting; and</i></li> </ul> </li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
o <i>no history of acting as engagement partner on a materially non-conforming engagement that was uncovered through peer review, monitoring, or regulatory inspection.</i>				
4. The firm's monitoring process should assign the performance of monitoring the firm's system of quality control to qualified individuals. <b>(QC 10.52c)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
5. The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either a. instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements and that the reports issued by the firm are appropriate in the circumstances or b. systemic, repetitive, or other significant deficiencies that require prompt corrective action. <b>(QC 10.54)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. The firm should communicate to relevant engagement partners, and other appropriate personnel, deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. <b>(QC 10.55)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
7. Recommendations for appropriate remedial actions for deficiencies noted should include one or more of the following: a. Taking appropriate remedial action in relation to an individual engagement or member of personnel b. The communication of the findings to those responsible for training and professional development c. Changes to the quality control policies and procedures d. Disciplinary action against those who fail to comply with the policies of the firm, especially those who do so repeatedly <b>(QC 10.56)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
8. The firm should establish policies and procedures to address cases when the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures should require the firm to a. determine what further action is appropriate to comply with relevant professional standards and legal and regulatory requirements and b. consider whether to obtain legal advice. <b>(QC 10.57)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
9. The firm should communicate, at least annually, the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm's leadership. This	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____



Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<p>communication should be sufficient to enable the firm and these individuals to take prompt and appropriate action, when necessary, in accordance with their defined roles and responsibilities to provide a basis for them to rely on the firm's system of quality control. Information communicated should include the following:</p> <ul style="list-style-type: none"> <li>a. A description of the monitoring procedures performed</li> <li>b. The conclusions drawn from the monitoring procedures</li> <li>c. When relevant, a description of systemic, repetitive, or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. <b>(QC 10.58)</b></li> </ul>				
<p>10. Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. When firms within a network operate under common monitoring policies and procedures designed to comply with this section, and these firms place reliance on such a monitoring system, the firm's policies and procedures should require that</p> <ul style="list-style-type: none"> <li>a. at least annually, the network communicate the overall scope, extent, and results of the monitoring process to appropriate individuals within the network firms and</li> <li>b. the network communicate promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise. <b>(QC 10.59)</b></li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p>11. The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with</p> <ul style="list-style-type: none"> <li>a. complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements and</li> <li>b. allegations of noncompliance with the firm's system of quality control.</li> </ul> <p>As part of this process, the firm should establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. <b>(QC 10.60)</b></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p>12. If, during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures, or instances of noncompliance with the firm's system of quality control by an individual or individuals are identified, the firm should take appropriate actions. <b>(QC 10.61)</b></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

## APPENDIX A

### EXPLANATION OF “NO” ANSWERS AND OTHER COMMENTS

This appendix is provided for your comments on all “No” answers or to expand upon any of the “Yes” answers. All “No” answers must be thoroughly explained and reviewed with the person or persons assigned operational responsibility for the firm’s system of quality control.

Ques. No.	Explanatory Comments	Disposition of Comments <sup>3</sup>
_____	_____	_____
_____	_____	_____
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_____	_____	_____
_____	_____	_____

<sup>3</sup> In concluding on the disposition of “no” answers, the reviewer should determine whether

- The issue can be resolved (for example, the answer to the checklist question should have been “yes”);
- The issue is not significant enough to warrant the preparation of an MFC form; or
- An MFC form should be prepared.

**AICPA Peer Review Program**  
**GUIDELINES FOR TESTING COMPLIANCE WITH**  
**QUALITY CONTROL POLICIES AND PROCEDURES**  
**FOR FIRMS WITH TWO OR MORE PERSONNEL<sup>1</sup>**

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Firm	Prepared By	Date
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**.01** This questionnaire should be completed by the reviewer when testing compliance with the firm’s quality control policies and procedures **after the planning phase of the review**. The questionnaire has been developed for firms with two or more personnel.

**.02** When testing the firm’s compliance with their quality control policies and procedures (QCPP), the reviewer will develop a plan for the nature and extent of compliance testing and document the plan in the *Summary Review Memorandum*. The number and type of tests will be based upon the reviewer’s assessment of peer review risk.

**.03** At a minimum, all “required” procedures must be performed for each review. When the reviewer has identified risks which warrant further consideration, “optional” procedures have been provided for the reviewer to perform as he or she deems necessary.

**.04** If no events relative to the “required” procedures occurred during the peer review year, it may be necessary for a team captain to review evidential matter from prior to the peer review year. If the design of the policies and procedures has changed and the team captain is unable to test compliance with an element of the firm’s system of quality control, a scope limitation for the review should be considered in consultation with the administering entity.

**.05** Any “no” answers identified when testing the firm’s compliance with quality control policies and procedures should be documented in Appendix A.

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
<b>A. Leadership Responsibilities for Quality Within the Firm (“Tone at the Top”)</b>					
<b>Required Procedures</b>					
QC 10.18	1. Obtain the firm's documented QCPP and verify that the documentation addresses all elements of the firm's system of quality control and was updated during the peer review year, as applicable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

<sup>1</sup> The term *personnel* is defined in QC section 10, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*) as all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs (including leased and per diem employees who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or attestation engagements, or those professionals who have the partner-level or manager-level responsibility for the overall supervision or review of such engagements).

<sup>2</sup> Document disposition of “no” answers in appendix A.

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.18	2. Verify through review of correspondence that changes to the firm's quality control policies and procedures were communicated to personnel in a timely manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.18	3. Interview a representative sample of firm personnel and verify that they are familiar with the firm's policies and procedures and that the firm sets appropriate expectations relative to quality control.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>Optional Procedures</b>					
QC 10.18	4. Select a sample of new hires and confirm that they have received the firm's quality control document or have otherwise received a description of the firm's quality control policies and procedures.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.18	5. Interview firm personnel and verify that a. They were notified of any changes to the firm's QCPP during the peer review year; and b. The training they have received on the firm's system of quality control is consistent with firm policy.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.19	6. Interview firm personnel and verify that a. The firm promotes a culture that emphasizes the importance of quality; b. The firm has the right balance between emphasizing budget and quality; c. They have not been expected to meet an unrealistic deadline such that the quality of their work was affected; d. They have not felt pressure to skip planned procedures due to time constraints; e. They are encouraged to provide management with feedback on the system of quality control and understand the process for doing so.	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.20	<p>7. Review the QC director's personnel file and other available information to assess whether the individual has sufficient and appropriate experience and ability to assume that responsibility. Confirm that the QC partner:</p> <p>a. Has sufficient and appropriate experience and ability to serve in that capacity,</p> <p>b. Has taken industry-specific CPE in any high-risk areas (e.g. must-select industries) he or she reviews, and</p> <p>c. Has no documented history of performance issues identified through regulator inspections, internal monitoring or peer review.</p>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.20	<p>8. Via inquiry of the QC director, confirm that he or she has the necessary authority to implement policies and procedures that would improve quality, and gets the appropriate approvals for new policies and procedures before they go into effect.</p>	<input type="checkbox"/>	<input type="checkbox"/>		_____

## B. Relevant Ethical Requirements

### Required Procedures

QC 10.21	<p>1. Review the firm's guidance materials regarding applicable independence, integrity and objectivity requirements. Confirm that they have been updated to reflect current requirements.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.21	<p>2. Review the policies put in place by the firm to monitor its independence with respect to financial statement audits. Consider the results of reviews of engagements and assess whether the firm's policies were complied with.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.21	<p>3. Select a sample of situations in which independence, integrity, and objectivity questions arose and verify that the resolution of such questions was appropriate.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.21	<p>4. If the firm accepted one or more engagements where it acted as principal auditor or accountant and another firm of CPAs was engaged to perform segments of the engagement, on a test basis:</p> <p>a. Determine whether the firm made sufficient inquiries concerning the professional reputation of the other auditor(s).</p> <p>b. Verify that written confirmations were obtained regarding the other firm's independence with respect to audit engagements and either written or oral confirmations were obtained for review or attestation engagements.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.22	5. Review evidence of the correspondence to personnel regarding changes in the firm's clients to which independence policies apply.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.22	6. Consider the actions taken by the firm when threats to independence were identified. Verify that the firm took appropriate actions, including withdrawing from an engagement or issuing the appropriate report in the circumstances if effective safeguards could not be applied.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.22	7. Interview a representative sample of firm personnel and verify that they have a sufficient understanding of the procedures the firm has implemented to ensure an independent relationship with its accounting and auditing clients.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.25	8. Select a sample of personnel and review the written representations (required by SQCS No. 8) obtained by the firm regarding independence, integrity, and objectivity. Confirm that representations were obtained for all selected personnel within the peer review year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>Optional Procedures</b>					
QC 10.21	9. Via inquiry of the individual assigned with responsibility for providing guidance, answering questions, monitoring compliance and resolving matters with respect to independence, integrity and objectivity ("relevant ethical requirements"), confirm that he or she <ul style="list-style-type: none"> <li>a. Understands the responsibilities they have been assigned;</li> <li>b. Understands what is required from an independence perspective when the firm accepts an engagement where it acts as principal auditor or accountant and another firm is engaged to perform segments of the engagement;</li> <li>c. Has implemented and complied with procedures to assure the firm's independence as required by the AICPA, state CPA societies, state boards of accountancy, state statute, the SEC and other regulatory bodies; and</li> <li>d. Perceives that he or she has the authority to resolve matters with respect to independence, integrity and objectivity.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.21	10. Interview firm personnel and verify that <ul style="list-style-type: none"> <li>a. Independence training has been provided in a manner consistent with the QCPP;</li> <li>b. They have a sufficient understanding of the consultation resources available for independence matters.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.22	11. Via inquiry of the individual assigned with responsibility for relevant ethical requirements, determine how threats to independence were evaluated and addressed, and verify that treatment of threats was appropriate in the circumstances.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.22	12. Interview firm personnel and verify that the firm informs them of their policies and procedures for relevant ethical requirements, including the types of financial or other relationships that may impair independence and that may be prohibited.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.23	13. Via inquiry of the individual assigned with responsibility for relevant ethical requirements, confirm that engagement partners provide the individual with relevant information about client engagements, including scope of services, to enable them to evaluate the overall effect, if any, on independence requirements.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.23	14. Via inquiry of an engagement partner, verify that when engagement acceptance or continuance decisions are made, they provide appropriate information to the individual responsible for matters with respect to independence, integrity and objectivity to enable them to evaluate the overall effect on independence requirements.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.23	15. If the firm's criteria for consulting with individuals outside the firm on independence, integrity or objectivity concerns were met, obtain evidence that individuals outside of the firm were consulted.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.23	16. Interview firm personnel and verify that the firm notifies them of new clients and they understand how to communicate potential independence conflicts.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.24	17. Via inquiry of the individual assigned with responsibility for relevant ethical requirements, verify that the individual performs regular reviews of unpaid fees from clients to ascertain whether any outstanding amounts may impair the firm's independence.	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.24	18. If any situations were noted where the firm, its personnel or both were not independent or failed to meet the requirements of ET 1.295, verify, via inquiry of the engagement partner, that the firm's independence policies and procedures were followed and that the actions taken to resolve the matter were appropriately communicated to the firm.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.24	19. Select a sample of engagements for which the firm has had a long relationship with the client. If the same senior personnel were used on an engagement, confirm that appropriate action was taken to address the familiarity threat. Appropriate actions include rotating partners, rotating senior staff, conducting EQCR or withdrawing from the engagement.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.25	20. Interview firm personnel and verify that staff are asked to make written representations of their independence with respect to firm clients on an annual basis.	<input type="checkbox"/>	<input type="checkbox"/>		_____

### C. Acceptance and Continuance of Client Relationships and Specific Engagements

#### Required Procedures

QC 10.27	1. Select a sample of acceptance and continuance decisions, review the documentation for those decisions, and verify that the firm: <ul style="list-style-type: none"> <li>a. Complied with its own policies and procedures and with the requirements of professional standards</li> <li>b. Had the required knowledge and expertise to perform the engagements</li> <li>c. Evaluated management's integrity</li> <li>d. Documented its understanding with the client regarding the services to be performed</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.27	2. Select a sample of new engagements and verify that the firm: <ul style="list-style-type: none"> <li>a. Communicated with predecessor auditors regarding management's integrity, history of correcting the predecessor auditor's findings and the reason for the change; and</li> <li>b. Estimated the resources necessary to complete the engagement before the proposal was submitted.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.27	3. Verify that firm partners and managers are aware of the firm's policies and procedures for acceptance and continuance of client relationships and specific engagements and that they are followed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____



Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.30	4. If any client relationships were discontinued, select a sample of such situations and verify that the firm's procedures for withdrawal were followed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>Optional Procedures</b>					
QC 10.27	5. Verify, via inquiry of an engagement partner, that the firm's policies and procedures for assessing the integrity of a client before accepting the engagement are followed.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.27	6. If the firm's quality control policies and procedures require each client acceptance and continuance decision to be considered by someone other than the engagement partner, select a sample of such decisions and confirm that the policy was adhered to.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.27	7. Verify, via inquiry, that the individual responsible for evaluating and making recommendations as to whether a client or specific engagement should be accepted or continued understands their responsibilities.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.28	8. If the firm identified any issues relative to Ethics Interpretation 102-2, "Conflicts of Independence", and ultimately decided to accept or continue the client relationship or specific engagement, determine how the conflicts of interest were resolved. Verify that the resolution was appropriate and in conformity with professional standards.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.30	9. If the firm considered discontinuing any audit and accounting client relationships but decided to continue, review the factors consider and verify that the firm's decision will not increase the risk that the firm will fail to perform and report in conformity with applicable professional standards.	<input type="checkbox"/>	<input type="checkbox"/>		_____
<b>D. Human Resources</b>					
<b>Required Procedures</b>					

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.31	<p>1. Select a sample of new hires, including those joining the firm through mergers or at supervisory levels. Obtain each individual's personnel file, and complete the following:</p> <p>a. Review the documentation and verify that the individual possessed the desired attributes, achievements, and experience required by the firm. If the individual did not possess the requisite qualifications, ascertain from other documentation or by inquiry that an exception was appropriately made.</p> <p>b. Verify that the background information and other documentation required by firm policy were obtained.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.31	<p>2. Review the firm's CPE records on a test basis and confirm that they demonstrate the following:</p> <p>a. The firm provided CPE to and maintained CPE records for professional personnel.</p> <p>b. Personnel participated in CPE in subjects that are relevant to the engagements they perform and their responsibilities in the firm.</p> <p>c. If, prior to the commencement of the peer review, the firm identified instances where personnel are not meeting requirements, verify that the firm has established an appropriate plan for correcting the situation.</p> <p>d. The firm was in compliance with its plans for its CPE program and with the CPE requirements of the following:</p> <p>i. Board(s) of accountancy in state(s) in which the firm's personnel is licensed</p> <p>ii. AICPA (if applicable)</p> <p>iii. State CPA society (if applicable)</p> <p>iv. Government Auditing Standards—the "Yellow Book" (if applicable)</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.31	<p>3. Determine the degree to which personnel training is conducted in-house. If the firm presents a significant amount of in-house training, select a sample of such programs for review and verify that the following are true:</p> <p>a. The developer is qualified and has obtained any necessary approvals. For example, a sponsor number from the appropriate state board of accountancy.</p> <p>b. The course is technically accurate, current, and contributes to the professional competence of the attendees.</p> <p>c. The instructor is qualified.</p> <p>d. The participants and instructor evaluate the course and appropriate action is taken when the evaluations are not favorable.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.31	4. Interview a representative sample of firm personnel and verify that they believe the firm's CPE and on-the-job training are appropriate and effective.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.32	5. Review the firm's standardized personnel evaluation form and compensation/advancement criteria (if applicable). Verify that the quality of performance receives greater weighting than commercial considerations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.32	6. Select a sample of personnel, review their personnel files, personnel evaluations, or other documentation, and verify that personnel are reviewed, evaluated, and promoted in accordance with firm policy, with evaluations being performed at least annually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.32	7. Review job descriptions and responsibilities for managers, seniors et al and confirm they are reasonable for the firm.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.32	8. Interview a representative sample of firm personnel and verify that the firm's QCPP are followed when compensation and advancement decisions are made.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.33	9. Select a sample of practitioners responsible for engagements in must-select industries and areas. Interview the practitioners and verify that they have an understanding of the industry or area and the standards that apply to the clients they have been assigned.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.33	10. Select a sample of report signors and confirm that they have exhibited the knowledge, skills and abilities (competencies) necessary to qualify them to perform the firm's accounting, auditing or attestation engagements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.34	11. Select a sample of engagement teams and review documentation of the factors considered in making those assignments. Confirm that the factors listed in QC Section 10 par. .A11 were considered, firm policies and procedures were adhered to and that the engagement partner approved the engagement team prior to the commencement of the engagement.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.34	12. Select a sample of personnel and review the firm's documentation regarding licensure. Verify that, when required, licenses were active (through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork) in the states in which the individuals primarily practiced public accounting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>Optional Procedures</b>					
QC 10.31	13. Verify via inquiry that the individual responsible for the firm's hiring and human resources management understands their responsibilities and is familiar with the firm's criteria for determining which individuals will be involved in the interviewing and hiring process.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.31	14. Interview a new hire. Verify that firm policies relative to orientation and training for new hires were adhered to and that he or she is familiar with the firm's policies relative to passing the Uniform CPA Examination and participation in other professional development activities.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.31	15. Interview the individual responsible for the firm's professional development activities, including maintaining CPE records. Verify via inquiry that the individual understands and is executing their responsibilities.	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.31	16. Interview firm personnel and verify that <ul style="list-style-type: none"> <li>a. The firm provides them with CPE in subjects that are relevant to their responsibilities;</li> <li>b. The firm informs personnel of changes in accounting and auditing standards, independence, integrity and objectivity requirements and the firm's technical policies and procedures with respect to them in a timely manner; and</li> <li>c. The firm encourages personnel to pass the Uniform CPA Examination and to participate in other professional development activities.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.31	17. Interview firm personnel and verify that <ul style="list-style-type: none"> <li>a. Personnel evaluations are conducted in a manner consistent with the firm's QCPP; and</li> <li>b. Evaluations are effective in helping personnel understand what is required for advancement.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.32	18. Select a sample of partner and experienced staff evaluations. Confirm that the evaluation addressed feedback based on monitoring results, peer reviews and regulatory inspections; identification of significant and emerging accounting and auditing issues; and consultation with firm experts when challenging issues arise.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.32	19. Interview the individual responsible for making advancement/termination decisions and developing the evaluation form for each professional classification. Verify that the individual understands and is executing their responsibilities consistent with the firm's policies and procedures.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.32	20. Interview one or more individuals responsible for periodically evaluating the performance of personnel. Verify that they understand and are executing their responsibilities consistent with the firm's policies and procedures.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.32	21. Select a sample of personnel and review their personnel evaluations. Confirm that those evaluations address performance, an assessment of their knowledge, skills and abilities, their progress within the firm, and the individual's career objectives and how they can be reached	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.33	<p>22. Select a sample of engagements which were found to be materially non-conforming after report issuance. Verify through corroborative inquiry that the firm took appropriate action in addressing the performance of the engagement partner. For example, the firm may:</p> <p>a. Require the engagement partner to take relevant CPE and required EQCR on the engagement partner's future engagements in that industry or area,</p> <p>b. Prohibit the engagement partner from performing future engagements in that industry or area, or</p> <p>c. Dismiss the engagement partner</p> <p>Verify that the firm's decision was properly implemented (e.g. by reviewing the engagement listing and confirming that the engagement partner did not serve on any engagements in that industry or area after the firm's decision).</p>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.34	<p>23. Select an audit engagement in an industry or area in which the firm performs a limited number of engagements and review the engagement team's competence, capabilities and resources to undertake the engagement, with a focus on the education and experience of the team. Conclude on whether the engagement team was competent to perform the engagement.</p>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.34	<p>24. Select a sample of new audit engagements in high-risk industries or areas. Assess the qualifications and experience of the engagement team and the adequacy of the resources assigned to the engagement. Verify that the firm engaged a knowledgeable third-party to assist with the performance of the engagement if appropriate.</p>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.34	<p>25. Interview firm personnel and verify that</p> <p>a. They believe they have had the technical training and proficiency required to perform their assignments, considering the nature and extent of supervision provided; and</p> <p>b. They are adhering to the firm's QCPP when preparing for engagements in industries they have not previously served.</p>	<input type="checkbox"/>	<input type="checkbox"/>		_____
<b>E. Engagement Performance</b>					
<b>Required Procedures</b>					

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.35	<p>1. If the firm develops their own QCM, in accordance with Peer Review Standards' Interpretations 42-2 and 42-3,</p> <p>a. Obtain an understanding of, and assess, the firm's policies and procedures for developing and maintaining QCM (for example, making updates and revisions), ensuring the reliability of the QCM, and ensuring the suitability of the QCM for the firm.</p> <p>b. Through the procedures performed, verify that the internally developed QCM are reliable and suitable, and that the firm's quality control policies and procedures for developing and maintaining the QCM are appropriately designed and implemented.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.35	<p>2. If the firm uses third-party developed QCM, in accordance with Peer Review Standards' Interpretations 42-2 and 42-3,</p> <p>a. Obtain an understanding of, and assess, the firm's quality control policies and procedures for adopting, updating and modifying third-party QCM, ensuring the reliability of the QCM and ensuring the suitability of the QCM for the firm.</p> <p>b. If the QCM underwent a QCM review, obtain a current QCM review report to determine the scope of the review and the degree of reliance that can be placed on the results. (Copies of current QCM review reports and acceptance letters can be obtained either from the AICPA website or from the reviewed firm.</p> <p>c. If any QCM used by the firm did not undergo a QCM review, assess the firm's quality control policies and procedures for ensuring the reliability and suitability of the QCM in accordance with Peer Review Standards Interpretation 42-2 and 42-3.</p> <p>d. Through the procedures performed, verify that the third party developed QCM are reliable and suitable, and that the firm's quality control policies and procedures for adopting, updating and modifying the QCM are appropriately designed and implemented.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.35	<p>3. Determine whether any standardized forms, disclosure checklists, or other checklists or questionnaires utilized by the firm are appropriate for the firm.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.35	4. Examine the firm's documentation of its firm licenses and confirm that they were active (through the earlier of reviewed engagements' issuance dates or the date of peer review field-work) in the states in which the practice unit is domiciled (main office is located) and in any other states where the firm performs attest engagements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.37	5. Review the firm's reference materials for its audit and accounting practice. Verify that they contain both recent pronouncements and comprehensive literature appropriate for the firm's specialties (including current A&A guides) and were updated on a timely basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.37	6. Select a sample of consultations including at least one involving an outside party and verify the following: a. All relevant facts and circumstances appear to have been provided to the party or parties consulted. b. The advice given appears reasonable based on the relevant facts and circumstances and is consistent with professional standards. c. The firm acted in a manner consistent with professional standards and with the firm's policies and procedures. d. The extent of required consultations was appropriately comprehensive. e. The requirements for documentation were met.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.37	7. Interview a representative sample of firm personnel and verify that consultation is being conducted when difficult technical issues arise.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.38	8. Select a sample of engagements where an EQCR was required under the firm's policies and procedures. Verify that: a. The procedures required by the firm's policies on EQCR were performed b. The EQCR was completed prior to the report release date, and any significant matters identified through the EQCR were resolved before the report was released c. The individual(s) performing the engagement quality control review was appropriately qualified and was assigned in accordance with the firm's policies and procedures d. The EQCR was documented as required by professional standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____



Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
<b>Optional Procedures</b>					
QC 10.35	9. Review the firm's QCM. Verify that the firm acquired or developed industry-specific quality control materials for all industries in which they practice.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.35	10. Interview the firm's partner responsible for a given must-select industry or area. Ask them about the firm's methodology for addressing nuanced topics and recent pronouncements affecting the industry or area. Assess the partner's competency to take responsibility for the quality of the firm's practice in that area.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.35	11. Review CPE records for the partner responsible for a given must-select industry or area. Verify that the partner is up-to-date on any recent changes to standards or guidance.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.35	12. Interview an engagement partner. Determine how instructions are given and to what extent work is reviewed when the firm uses other offices or correspondents for audit or accounting engagements. Verify that these responses are consistent with firm policy.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.35	13. Interview firm personnel and verify that <ul style="list-style-type: none"> <li>a. The procedures appearing in the firm's audit programs differ from client to client based on their unique risks;</li> <li>b. The form and content of audit working paper files are consistent throughout the firm;</li> <li>c. Engagement planning meetings are held prior to the commencement of work on an engagement, appropriate topics are discussed during the meetings, and all personnel assigned to the engagement, including the engagement partner, attend;</li> <li>d. Supervision of engagements is consistent with firm policy and supervisors are readily available throughout performance of the engagement;</li> <li>e. The extent of working paper review is consistent with firm policy; and</li> <li>f. Reports are not being released before the work and reviews are completed.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.36	14. Interview the QC partner. Determine whether there are any circumstances where an engagement team would not include a partner, and if so, verify that a partner of the firm would ultimately still be responsible for the engagement.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.37	15. Obtain a list of the firm's designated consultants including each consultant's specialties. Select a sample of consultants and verify, through examination of resumes, that the consultants are qualified to perform their designated responsibilities.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.37	16. Interview a sample of engagement partners. Determine whether they performed any engagements where the criteria for consultation were met. If the criteria were met, verify that consultations were performed and that the documentation requirements were met.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.37	17. Contact a sample of internal specialists. Determine whether they had any differences of opinion with engagement personnel and, if so, how those differences of opinion were addressed. Verify that any differences of opinion were resolved before report issuance.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.37	18. Interview firm personnel and verify that <ul style="list-style-type: none"> <li>a. They understand firm policy with respect to consultation and are performing consultations when required;</li> <li>b. They are familiar with the resources available for consultation and utilize them when appropriate; and</li> <li>c. Consultations are documented consistent with firm policy.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.38	19. Interview an engagement partner and verify that they understand the firm's criteria for the performance of engagement quality control reviews.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.38	20. Consider the firm's engagement listing and the results of inquiries of leadership. Verify that EQCR was performed for any audit engagements in an industry where the firm's practice is limited and the firm's personnel have little or no experience.	<input type="checkbox"/>	<input type="checkbox"/>		—

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.40	<p>21. Contact an individual who performed an engagement quality control review for the firm.</p> <p>a. Ask about their approach to addressing nuanced topics and recent pronouncements affecting the type of engagement they reviewed. Verify that the individual was competent to perform an engagement quality control review in that area.</p> <p>b. Confirm that they were given sufficient time to complete a sufficiently thorough review</p> <p>c. Verify that appropriate measures were taken to ensure that they met the independence requirements relative to the engagement(s) reviewed.</p> <p>d. Determine their degree of involvement with the engagement, including whether they were consulted, and confirm that they did not make decisions on behalf of the engagement team.</p> <p>e. Determine whether any matters that would cause them to question the engagement team's judgments and conclusions arose. Confirm that such matters were resolved before report issuance.</p>	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.43	22. Select a sample of engagement quality control reviews and discuss the process for selecting the individual(s) performing the engagement quality control review with the engagement partner. Confirm that firm policy was adhered to relative to the selection of the individual(s) performing the engagement quality control review.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.46	23. Interview an engagement partner and verify that the firm's policies relative to resolving differences of professional judgment on the engagement team are understood and being followed.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.47	24. Interview firm personnel and verify that they are familiar with firm policy relative to resolving disagreements on the engagement team.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.49	25. Interview an engagement partner and verify that the firm's time limits for completing the assembly of final engagement files are understood and complied with.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.49	26. Select a sample of engagements and confirm that the firm has complied with their policies and procedures relative to assembly of final engagement files.	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.49	27. Interview firm personnel and verify that firm policies for completing assembly of final engagement files are being adhered to.	<input type="checkbox"/>	<input type="checkbox"/>		_____
QC 10.51	28. Interview the individual responsible for document retention. Gain an understanding of their process for determining retention periods and verify that it is appropriate.	<input type="checkbox"/>	<input type="checkbox"/>		_____
<b>F. Monitoring</b>					
<b>Required Procedures</b>					
QC 10.52	<p>1. Review the firm's monitoring documentation. Verify that the procedures performed were timely and covered these areas:</p> <ul style="list-style-type: none"> <li>a. Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control.</li> <li>b. Reviewing an appropriate number of offices.</li> <li>c. Reviewing an appropriate number and type of engagements for compliance with professional standards.</li> <li>d. Reviewing partners and managers with significant accounting and auditing responsibilities.</li> <li>e. Reviewing its library and practice aids to determine that they were appropriate and up-to-date.</li> <li>f. Evaluating professional development programs to determine whether they were achieving their objectives and whether those programs were appropriate for firm personnel.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.52	<p>2. Review the personnel files and conduct interviews for a sample of the individuals responsible for the firm's monitoring process, including the individual with overall responsibility for the firm's monitoring. Verify that they:</p> <ul style="list-style-type: none"> <li>a. Have sufficient training, experience and competence to execute their responsibilities</li> <li>b. Were free from any limitations or restrictions on their ability to practice public accounting</li> <li>c. Did not act as engagement partner on one or more materially non-conforming engagements which were uncovered through peer review, monitoring or regulatory inspection</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.52	<p>3. Discuss the firm's approach to monitoring with the responsible individual and review documentation of the firm's engagement selection for internal inspection. Verify that the firm:</p> <p>a. Took appropriate steps to ensure that the engagement population was complete.</p> <p>b. Selected a reasonable cross section of the levels of service and industries served by the firm.</p> <p>c. Selected a reasonable cross section of the firm's partners</p> <p>d. Targeted selections of entities operating in highly specialized or regulated industries (including financial institutions, governmental entities and employee benefit plans) such that all such industries were included in the inspection</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.52	4. Review the materials used in carrying out the monitoring procedures, such as questionnaires, programs, and checklists. Confirm that those materials are sufficiently comprehensive to identify instances of non-conformity with professional standards or the firm's quality control policies and procedures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.58	5. Review monitoring documentation. Verify that the documentation addresses the deficiencies identified through monitoring procedures, an assessment of the significance of those deficiencies, and recommended corrective actions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.58	6. Verify, through inquiry, that the results of the monitoring procedures (procedures performed, conclusions reached, deficiencies noted, and actions planned) were appropriately summarized and communicated to appropriate personnel at least annually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.58	7. Verify, through corroborative inquiry, that appropriate corrective action was taken based on the results of the monitoring procedures, including, if necessary, action pursuant to the requirements of AU-C section 585, Consideration of Omitted Procedures After the Report Date (AICPA, Professional Standards) and AU-C section 560, Subsequent Events and Subsequently Discovered Facts (AICPA, Professional Standards), or supplementing the working papers to document the procedures performed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.58	8. Verify, through corroborative inquiry, that the firm follows up on planned corrective actions as a result of the monitoring procedures to determine that they were actually implemented.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.60	9. Verify, through review of monitoring documentation and through inquiry, that the firm interviewed a sample of its personnel regarding the effectiveness of its quality control policies and procedures (including professional development programs) and that the feedback from personnel was addressed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>Optional Procedures</b>					
QC 10.52	10. Interview the individual responsible for the firm's monitoring process and confirm that he or she feels that they have appropriate authority in the firm to take on that responsibility.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.52	11. If the firm has a limited number of persons with sufficient and appropriate experience and authority to perform inspections, verify that the firm engaged a suitably qualified external person or another firm to perform engagement inspections and other monitoring procedures.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.60	12. Select a sample of complaints and allegations. Verify that they were investigated by a suitably qualified individual who was not otherwise involved in the engagement and the complaints/allegations and responses to them were documented.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.60	13. Interview firm personnel and verify that they are encouraged to raise concerns about noncompliance with professional standards, regulatory and legal requirements, and the firm's system of quality control.	<input type="checkbox"/>	<input type="checkbox"/>		—

**APPENDIX A**

**EXPLANATION OF “NO” ANSWERS AND OTHER COMMENTS**

This appendix is provided for your comments on all “No” answers or to expand upon any of the “Yes” answers. All “No” answers must be thoroughly explained and reviewed with the person or persons assigned operational responsibility for the firm’s system of quality control.

<b>Ques. No.</b>	<b>Explanatory Comments</b>	<b>Disposition of Comments<sup>3</sup></b>
_____	_____	_____
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<sup>3</sup> In concluding on the disposition of “no” answers, the reviewer should determine whether

- The issue can be resolved (for example, the answer to the checklist question should have been “yes”);
- The issue is not significant enough to warrant the preparation of an MFC form; or
- An MFC form should be prepared.

AICPA Peer Review Program

**GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES  
FOR ~~FIRMS WITH TWO OR MORE PERSONNEL~~ A SOLE PRACTITIONER WITH NO PERSONNEL**<sup>1</sup>

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Firm	Prepared By	Date
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**.01** This questionnaire should be completed by the reviewer when evaluating the design of the firm’s quality control policies and procedures **during the planning phase of the review**. The questionnaire has been developed for ~~firms with two or more personnel~~ review of a sole practitioner with no personnel.

**.02** When evaluating the firm’s quality control policies and procedures, the reviewer should use his or her professional judgment to determine whether the firm’s system of quality control was designed to comply with QC section 10. In so doing, the reviewer will review considerations from the QC section 10 application guidance and from other sources.

**.03** If the firm’s documented quality control policies and procedures (QCPP) do not address one or more of the considerations, this may represent a risk that the firm’s policies and procedures are not suitably designed to comply with the QC section 10. The reviewer should consider whether that risk is mitigated by the firm’s policies and procedures and document that consideration.

**.04** Any “no” answers identified during the evaluation of the firm’s quality control policies and procedures should be documented in Appendix A.

Standard Requirement	Firm’s documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<b>A. Leadership Responsibilities for Quality Within the Firm (“Tone at the Top”)</b>				
1. The firm should document its policies and procedures and communicate them to the firm’s personnel (QC 10.18)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm’s QCPP are designed to comply with the standard, consider whether the firm’s documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The <del>firm-sole practitioner</del> has communicated a description of the firm’s QCPP to <del>all firm</del>any per-diem personnel, the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with the QCPP. (QC 10.A2-.A3)</i></li> <li>• <i>The firm’s documented QCPP are kept up-to-date.</i></li> </ul>				

<sup>1</sup> The term *personnel* is defined in QC section 10, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*) as all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs (including leased and per diem employees who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or attestation engagements, or those professionals who have the partner-level or manager-level responsibility for the overall supervision or review of such engagements).

<sup>2</sup> Document disposition of “no” answers in appendix A.



Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>All <del>firm-per-diem</del> personnel receive prompt notification of any changes to the firm's QCPP, and related training where appropriate.</li> </ul>				
2. The firm should establish policies and procedures designed to promote an internal culture based on recognition that quality is essential in performing engagements. Such policies and procedures should require the <del>firm's leadership (managing partner or board of managing partners, CEO, or equivalent)</del> sole practitioner to assume ultimate responsibility for the firm's system of quality control. (QC 10.19)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</p> <ul style="list-style-type: none"> <li>All levels of the firm's managementThe sole practitioner promotes a quality-oriented internal culture through clear, consistent and frequent actions and messages that emphasize the firm's QCPP and the requirements to perform work that complies with professional standards and applicable legal and regulatory requirements, and issue reports that are appropriate in the circumstances. (QC 10.A4-.A5)</li> <li><del>The firm's policies and procedures address performance evaluation, compensation, and advancement (including incentive systems) with regard to its personnel in order to demonstrate the firm's overarching commitment to quality. (QC 10.A4-.A5)</del></li> <li>The firm assigns management responsibilitiessole practitioner considers the costs associated with performing in conformity with applicable professional standards before determining rates and fees so that commercial considerations do not override the quality of the work performed. (QC 10.A4-.A5)</li> <li>The firm providessole practitioner devotes sufficient and appropriate resources for the development, documentation, and support of its quality control policies and procedures. (QC 10.A4-.A5)</li> </ul>				
3. The firm should establish policies and procedures designed to provide it with reasonable assurance that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's leadership has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (QC 10.20)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>B. Relevant Ethical Requirements</b>				
1. The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (QC 10.21)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</p> <ul style="list-style-type: none"> <li><del>The firm has assigned an individual with responsibility for providing guidance, answering questions, monitoring compliance, and resolving matters with respect to independence, integrity, and objectivity.</del></li> <li>The firmsole practitioner provides its-per-diem personnel with the list of clients and any related entities and informs them on a timely basis as to any changes in the firm's clients and any related entities to which independ-</li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<p><i>ence policies apply.</i></p> <ul style="list-style-type: none"> <li><i>If the firm accepts an engagement where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement, written confirmations are obtained regarding the other firm's independence with respect to audit engagements and either written or oral confirmations obtained for review or attestation engagements.</i></li> <li><i>If the <del>firm</del> sole practitioner identifies circumstances for which documentation of the resolution of independence, integrity, and objectivity questions is required, such documentation is retained for a specified period of time.</i></li> <li><i>If the firm provides non-attest services to accounting and auditing clients, the firm must meet all the requirements of ET 1.295 for all such clients.</i></li> <li><i>If the firm becomes a member of a network [ET sec. 92 par. .22], the firm will meet all of the requirements of Ethics Interpretation No. 101-17 and monitor its independence with respect to financial statement audits, reviews and other attest engagements performed by other members of the network.</i></li> </ul>				
2. The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm; its personnel; and, when applicable, others subject to independence requirements (including network firm personnel) maintain independence when required by relevant ethical requirements. (QC 10.22)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. The firm's policies and procedures enable it to communicate its independence requirements to its personnel and, when applicable, others subject to them. (QC 10.22a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. The firm's policies and procedures enable it to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards or, if considered appropriate, to withdraw from the engagement when withdrawal is possible under applicable law or regulation. (QC 10.22b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The <del>firm</del> sole practitioner has established criteria for determining when it is necessary to consult with individuals outside the firm on independence, integrity, or objectivity concerns.</i></li> </ul>				
5. The firm's policies and procedures require <del>engagement partners to provide the firm with the sole practitioner to consider</del> relevant information about client engagements, including the scope of services, to enable <del>the firm</del> him or her to evaluate the overall effect, if any, on independence requirements. (QC 10.23a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. The firm's policies and procedures require personnel to promptly notify the firm of circumstances and relationships that create a threat to independence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
so that appropriate action can be taken. (QC 10.23b)				
7. The firm's policies and procedures require the accumulation and communication of relevant information to appropriate personnel so that the firm and its personnel can readily determine whether they satisfy independence requirements, the firm can maintain and update information relating to independence, and the firm can take appropriate action regarding identified threats to independence that are not at an acceptable level. (QC.10.23c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
8. The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements and to enable it to take appropriate actions to resolve such situations. (QC 10.24)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• The <del>firm designates responsibility to appropriate personnel for</del> <u>sole practitioner</u> periodically review<del>ing</del> <u>unbilled or unpaid fees from clients to ascertain whether any outstanding amounts may impair the firm's independence.</u></li> <li>• The <del>firm-sole practitioner</del> <u>evaluates other possible threats to independence and objectivity, including the familiarity threat that may be created by</u> <del>using the same senior personnel on</del> <u>performing</u> an audit or attest engagement over a long period of time. When a familiarity threat is identified, the <del>firm-sole practitioner</del> <u>takes appropriate actions to eliminate those threats or reduce them to an acceptable level by applying safeguards.</u></li> </ul>				
9. The firm's policies and procedures require personnel to promptly notify the firm of independence breaches of which they become aware. (QC 10.24a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
10. The firm's policies and procedures require <del>the firm</del> <u>per-diem personnel</u> to promptly communicate identified breaches of independence policies and procedures to the <u>sole practitioner engagement partner</u> who, <del>with the firm,</del> must address the breach, and other relevant personnel in the firm and, when appropriate, the network and those subject to the independence requirements who need to take appropriate action. (QC 10.24b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
11. The firm's policies and procedures require prompt communication to the <u>sole practitioner</u> firm, <del>if necessary, by the engagement partner and other</del> <u>by</u> relevant <u>per-diem</u> personnel of the actions taken to resolve identified breaches of independence policies and procedures so that the <del>firm-sole practitioner</del> <u>can determine whether</u> <del>he or she</del> <u>should take further action.</u> (QC 10.24c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
12. At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the requirements set forth in Rule 101, Independence (ET sec. 101 par. .01), and its related interpretations and rulings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. (QC 10.25)				
13. The firm should establish policies and procedures for all audit or attestation engagements for which regulatory or other authorities require the rotation of personnel after a specified period, in compliance with such requirements. (QC 10.26)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>C. Acceptance and Continuance of Client Relationships and Specific Engagements</b>				
1. The firm's policies and procedures provide reasonable assurance that it will undertake or continue relationships and engagements only when the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so. (QC 10.27a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>In considering whether <del>the firm</del> <u>he or she</u> has the competence, capabilities, and resources to undertake a new engagement from a new or existing client, the <u>firm-sole practitioner</u> reviews the specific requirements of the engagement <del>and the existing partner and staff profiles at all relevant levels</del>, including whether</i> <ul style="list-style-type: none"> <li><i><del>he or she has firm personnel have</del> knowledge of relevant industries or subject matters or the ability to effectively gain the necessary knowledge;</i></li> <li><i><del>firm personnel have</del> <u>he or she has</u> experience with relevant regulatory or reporting requirements or the ability to effectively gain the necessary competencies;</i></li> <li><i>specialists are available, if needed;</i></li> <li><i>individuals meeting the criteria and eligibility requirements to perform an engagement quality control review are available, when applicable; and</i></li> <li><i><del>the firm</del> <u>he or she</u> is able to complete the engagement within the reporting deadline. (QC 10.A11)</i></li> </ul> </li> <li><i>The <u>firm-sole practitioner</u> assesses the risks associated with the engagement before making an acceptance or continuance decision. For example, <del>the firm</del> <u>he or she</u> may consider the complexity of the engagement, the degree of specialization or regulation in the prospective client's industry, the entity's ability to continue as a going concern, the amount of time and effort required to complete the engagement, and the need for additional firm or individual licenses.</i></li> <li><i><del>Each client relationship and engagement is considered by an individual other than the engagement partner to determine whether the engagement should be accepted or continued based on the competence, capabilities and resources of the firm.</del></i></li> </ul>				
2. The firm's policies and procedures provide reasonable assurance that it will undertake or continue relationships and engagements only when the firm can comply with legal and relevant ethical requirements. (QC 10.27b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
3. The firm's policies and procedures provide reasonable assurance that it will undertake or continue relationships and engagements only when the firm has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity. (QC 10.27c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The <del>firm</del>-sole practitioner considers the following when assessing the integrity of a client:</i> <ul style="list-style-type: none"> <li>○ <i>The identity and business reputation of the client's principal owners, key management, and those charged with governance</i></li> <li>○ <i>The nature of the client's operations, including its business practices</i></li> <li>○ <i>Information concerning the attitude of the client's principal owners, key management, and those charged with governance toward such matters as internal control or aggressive interpretation of accounting standards</i></li> <li>○ <i>Indications of an inappropriate limitation in the scope of the work</i></li> <li>○ <i>Indications that the client might be involved in money laundering or other criminal activities</i></li> <li>○ <i>The reasons for the proposed appointment of the firm and nonreappointment of the previous firm (QC 10.A12-A13)</i></li> </ul> </li> <li>• <i>The <del>firm</del>-sole practitioner utilizes the following sources of information in assessing the integrity of a client:</i> <ul style="list-style-type: none"> <li>○ <i>Communications with existing or previous providers of professional accountancy services to the client, in accordance with relevant ethical requirements, and discussions with other third parties</i></li> <li>○ <i>Inquiry of other firm personnel or third parties, such as bankers, legal counsel, and industry peers</i></li> <li>○ <i>Background searches of relevant databases (QC 10.A12-.A13)</i></li> </ul> </li> </ul>				
4. The firm's policies and procedures require the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (QC 10.28a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The <del>firm</del>-sole practitioner has considered significant issues that have arisen during the current or previous engagements and their implications for continuing the relationship. For example, a client may have started to expand its business into an area where the <del>firm</del>-sole practitioner does not possess, and cannot obtain, necessary expertise. (QC 10.A14)</i></li> </ul>				
5. The firm's policies and procedures require the firm to determine whether it is appropriate to accept the engagement if a potential conflict of interest is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
identified in accepting an engagement from a new or an existing client. (QC 10.28b)				
6. If issues have been identified and the firm decides to accept or continue the client relationship or a specific engagement, the firm's policies and procedures require the firm to consider whether ethical requirements that exist under Interpretation No. 102-2, "Conflicts of Interest," under Rule 102, Integrity and Objectivity (ET sec. 102 par. .03), apply, such as disclosure of the relationship to the client and other appropriate parties, and document how the issues were resolved. (QC 10.28c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
7. To minimize the risk of misunderstandings regarding the nature, scope, and limitations of the services to be performed, the firm should establish policies and procedures that provide for obtaining an understanding with the client regarding those services. (QC 10.29)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
8. The firm should establish policies and procedures on continuing an engagement and the client relationship that address the circumstances when the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures should include consideration of the professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to regulatory authorities, and the possibility of withdrawing from the engagement or from both the engagement and the client relationship. (QC 10.30)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The <del>firm</del> sole practitioner has established policies and procedures on withdrawal which address issues that include the following:</i> <ul style="list-style-type: none"> <li>○ <i>Discussing with the appropriate level of the client's management and those charged with governance the appropriate action that the firm might take based on the relevant facts and circumstances</i></li> <li>○ <i>If the <del>firm</del> sole practitioner determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with governance withdrawal from the engagement or from both the engagement and the client relationship and the reasons for the withdrawal</i></li> <li>○ <i>Considering whether there is a professional, legal, or regulatory requirement for the firm to remain in place or for the firm to report the withdrawal from the engagement or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities</i></li> <li>○ <i>Documenting significant matters, consultations, conclusions, and the basis for the conclusions (QC 10.A16).</i></li> </ul> </li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	

**D. Human Resources**

1. The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enable the firm to issue reports that are appropriate in the circumstances. (QC 10.31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
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*In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that*

- ~~The firm's recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm's work and possess the appropriate characteristics to enable them to perform competently. (QC 10.A17-.A22)~~
- The firm's policies and procedures emphasize the need for the sole practitioner (and per-diem personnel, if any) all levels of firm personnel to participate in general and industry-specific continuing professional education (CPE) and other professional development activities that enable them-him or her to fulfill their responsibilities assigned and to satisfy applicable CPE requirements of the AICPA and regulatory agencies. (QC 10.A17-.A22)
- ~~The firm's policies and procedures place importance on passing the Uniform CPA Examination. (QC 10.A17-.A22)~~
- The firm-sole practitioner uses a suitably qualified external person when appropriate ~~(for example, when internal technical and training resources are unavailable).~~ (QC 10.A17-.A22)
- ~~The firm's performance evaluation, compensation, and advancement procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. (QC 10.A17-.A22)~~
- ~~The firm's-sole practitioner~~ has established policies and procedures which
- make per-diem personnel aware of the firm's expectations regarding performance and ethical principles. (QC 10.A17-.A22):
  - ~~provide personnel with an evaluation of, and counseling on, performance, progress, and career development; and~~
  - ~~help personnel understand that their compensation and advancement to positions of greater responsibility depend upon, among other things, performance quality and adherence to ethical principles and that failure to comply with the firm's policies and procedures may result in disciplinary action. (QC 10.A17-.A22)~~
- ~~The firm has an individual or individuals responsible for the firm's hiring and human resources management, including evaluation of personnel needs, establishment of hiring objectives, and providing final approval.~~
- ~~The firm has criteria for determining which individuals will be involved in the interviewing and hiring process.~~
- The firm's hiring criteria address the attributes, achievements, and experiences desired in entry-level and experienced per-diem personnel to enable them to perform competently within the firm.



Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li><del>• The firm has an orientation and training policy for new hires.</del></li> <li><del>• The firm encourages personnel to participate in other professional development activities, such as taking graduate level courses, becoming members of professional organizations, serving on professional committees, and/or writing for professional publications.</del></li> <li><del>• The firm has an individual or individuals responsible for the firm's CPE and professional development activities, including maintaining CPE records and course materials for personnel.</del></li> <li><del>• When a senior member of an engagement team the sole practitioner does not have recent experience performing in an industry or area to which he or she has been assigned/engaged, the individual obtains appropriate education and/or experience before planning procedures are performed.</del></li> <li><del>• The firm informs personnel of changes in accounting and auditing standards, independence, integrity, and objectivity requirements and the firm's technical policies and procedures with respect to them (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement).</del></li> </ul>				
2. <del>The firm's policies and procedures should provide that personnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities that they will be called on to assume. (QC 10.32)</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	=
<p><del>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</del></p> <ul style="list-style-type: none"> <li><del>• There are different levels of responsibility within the firm (for example, partner, manager, and senior).</del></li> <li><del>• The firm establishes, documents, communicates and adheres to evaluation and advancement criteria for personnel at all levels.</del></li> <li><del>• The firm establishes compensation and advancement criteria for partners and senior level staff that address the following:</del> <ul style="list-style-type: none"> <li><del>○ Feedback based on monitoring results, peer reviews, and regulatory inspections</del></li> <li><del>○ Appropriate identification of significant and emerging accounting and auditing issues</del></li> <li><del>○ Appropriate consultation with firm experts when challenging issues arise</del></li> </ul> </li> <li><del>• The firm designates an individual with responsibility for making advancement and termination decisions, including identifying responsibilities and requirements for evaluation at each level and deciding who will prepare evaluations, and developing the evaluation criteria for each professional classification (including partners).</del></li> <li><del>• The firm designates responsibility for periodically evaluating the performance of personnel and advising them of their progress in the firm.</del></li> <li><del>• At least annually, the firm summarizes and reviews with personnel the evaluation of their performance, including an assessment of their knowledge, skills and abilities (competencies), and progress with the firm, that includes a discussion regarding performance, future objectives of the firm and the individual, assignment preferences, and career opportunities.</del></li> </ul>				
3.2. <del>The firm should assign responsibility for each engagement to an engagement partner and should establish policies and procedures requiring that the</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	=



Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
identity and role of the <del>engagement partner</del> sole practitioner are communicated to management and those charged with governance; the <del>engagement partner</del> sole practitioner has the appropriate competence, capabilities, and authority to perform the role; and the responsibilities of the <del>engagement partner</del> sole practitioner are clearly defined <del>and communicated to that individual</del> . (QC 10.33)				
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The characteristics of the client, industry, and the kind of service being provided are considered by the <del>firm</del>sole practitioner before determining the nature and extent of competencies that <del>he or she is are</del> expected to possess of the engagement partner. (QC 10.A25-.A30)</i></li> <li><i><del>Engagement partners</del>The sole practitioner <del>have obtained</del>ed an understanding of the role of a system of quality control and the Code of Professional Conduct, an understanding of the service to be performed, technical proficiency, familiarity with the industry, professional judgment, and an understanding of the organization's IT systems. (QC 10.A25-.A30)</i></li> <li><i>The <del>firm</del>sole practitioner monitors <del>the his or her</del> workload and availability <del>of engagement partners</del> so as to <del>provide enable these individuals to have</del> sufficient time to adequately discharge <del>their his or her</del> responsibilities. (QC 10.A25-.A30)</i></li> <li><i>When an engagement is found to be materially non-conforming after report issuance (for example, through firm monitoring, peer review or regulatory inspection), the <del>firm</del>sole practitioner takes appropriate action. Such action may call for <del>the firm to</del> either (a) <del>require the engagement partner to taking</del> relevant CPE and <del>requiring</del> EQCR on <del>the engagement partner's</del> future engagements in that industry or area, <del>or</del> (b) <del>prohibit the engagement partner from performing</del>foregoing any future engagements in that industry or area, <del>or</del> (c) <del>dismiss the engagement partner</del>.</i></li> </ul>				
4.3. The firm should establish policies and procedures to assign appropriate personnel with the necessary competence and capabilities to perform engagements in accordance with professional standards and applicable legal and regulatory requirements and enable the firm to issue reports that are appropriate in the circumstances. (QC 10.34)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><del><i>In assigning engagement teams and determining the level of supervision required, the firm considers the engagement team's</i></del> <ul style="list-style-type: none"> <li><del><i>understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;</i></del></li> <li><del><i>understanding of professional standards and legal and regulatory requirements;</i></del></li> <li><del><i>technical knowledge and expertise, including knowledge of relevant IT;</i></del></li> <li><del><i>knowledge of relevant industries in which the clients operate;</i></del></li> </ul> </li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li><del>○ ability to apply professional judgment; and</del></li> <li><del>○ understanding of the firm's quality control policies and procedures. (QC 10.A31)</del></li> <li>● <del>A qualified individual has been designated with responsibility for the assignment of personnel to engagements.</del></li> <li>● <del>The party responsible for engagement team assignment is aware of the factors which should be considered in forming an engagement team. Such factors may include engagement size and complexity; specialized experience or expertise required; personnel availability and involvement of supervisory personnel; timing of the work to be performed; continuity and rotation of personnel; opportunities for on the job training; previous knowledge; skills and abilities gained through other experience; and situations where independence or objectivity concerns exist.</del></li> <li>● <del>The engagement partner approves the composition of the engagement team before any procedures are performed.</del></li> <li>● <del>The sole practitioner Individuals are maintaining maintains</del> the appropriate licenses to perform their engagements <del>they are assigned</del>, including for states other than where the individual primarily practices public accounting.</li> <li>● When the <del>sole practitioner firm</del> accepts an audit in an industry that <del>the firm's personnel they</del> have not previously audited, and professional education is not sufficient for <del>him or her the engagement team</del> to obtain the necessary competence to perform the engagement, the <del>firm sole practitioner</del> engages a suitably qualified external person to assist with the performance of the audit as a member of the engagement team.</li> </ul>				
<b>E. Engagement Performance</b>				
1. The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are consistently performed in accordance with professional standards and applicable legal and regulatory requirements and that the firm issues reports that are appropriate in the circumstances. Such policies and procedures should include matters relevant to promoting consistency in the quality of engagement performance, supervision responsibilities and review responsibilities (QC 10.35)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>● <del>The firm sole practitioner promotes consistency in the quality of engagement performance through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. (QC 10.A32-.A35)</del></li> <li>● <del>Those with engagement supervision responsibilities will:</del> <ul style="list-style-type: none"> <li><del>○ track the progress of the engagement;</del></li> <li><del>○ consider the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;</del></li> <li><del>○ address significant findings and issues arising during the engagement, considering their significance, and</del></li> </ul> </li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<p><del>modifying the planned approach appropriately; and</del></p> <p><del>o identify matters for consultation or consideration by more experienced engagement team members during the engagement. (QC 10.A32-A35)</del></p> <ul style="list-style-type: none"> <li>• <del>Through self-review the sole practitioner</del> <del>ose with engagement review responsibilities</del> will consider whether: <ul style="list-style-type: none"> <li>o the work has been performed in accordance with professional standards and applicable legal and regulatory requirements;</li> <li>o significant findings and issues have been raised for further consideration;</li> <li>o appropriate consultations have taken place and the resulting conclusions have been documented and implemented;</li> <li>o the nature, timing, and extent of the work performed is appropriate and without need for revision;</li> <li>o the work performed supports the conclusions reached and is appropriately documented;</li> <li>o the evidence obtained is sufficient and appropriate to support the report; and</li> <li>o the objectives of the engagement procedures have been achieved. (QC 10.A32-.A35)</li> </ul> </li> <li>• If the <del>firm sole practitioner</del> develops <del>his or heris</del> own quality control materials (QCM) (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires and the like) to assist with engagement performance, the firm has established policies and procedures for <ul style="list-style-type: none"> <li>o developing materials that are reliable and suitable for the firm's practice, and</li> <li>o maintaining the reliability and suitability of the materials through updates and revisions.</li> </ul> </li> <li>• If the <del>firm sole practitioner</del> uses third-party QCM (for example, an audit and accounting manual, standardized forms, checklists, templates, practice aids, tools, questionnaires, and the like) to assist with engagement performance, the firm has established policies and procedures for <ul style="list-style-type: none"> <li>o identifying and adopting materials that are reliable, modifying as necessary to make them suitable for the firm's practice.</li> <li>o maintaining the reliability and suitability of the materials through updates and revisions.</li> </ul> </li> <li>• If the <del>firm sole practitioner</del> practices in a must-select industry or area, <del>he or she a partner is designated with firm wide responsibility for the quality of the firm's practice in that area. That partner must maintain</del> current experience and education in the must-select industry or area.</li> <li>• The <del>firm sole practitioner</del> establishes documented procedures to follow when the firm uses <del>other offices or correspondents</del> for audit or accounting engagements. Those procedures address the following: <ul style="list-style-type: none"> <li>o The form in which instructions are given to <del>other offices or correspondents</del>, and</li> <li>o The extent to which their work is reviewed.</li> </ul> </li> <li>• The firm maintains the appropriate firm license(s), including states other than where its main office is domiciled. In all states where the firm practices, the firm <ul style="list-style-type: none"> <li>o is licensed under the same name(s) under which it practices;</li> <li>o must obtain license(s) which are effective before any reports are issued in the state;</li> </ul> </li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>o considers variations in licensing bodies' rules and regulations and how they impact the firm's need to be licensed in that state; and</li> <li>o addresses any restrictions on practice imposed by the licensing bodies.</li> </ul>				
2. The firm's review responsibility policies and procedures should be determined on the basis that suitably experienced engagement team members, which may include the <del>engagement partners</del> <u>sole practitioner</u> , review work performed by other engagement team members. (QC 10.36)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <del>The firm requires that a partner of the firm ultimately be responsible for each engagement (certain standards may require partner responsibility).</del></li> </ul>				
3. The firm's policies and procedures are designed to provide it with reasonable assurance that appropriate consultation takes place on difficult or contentious issues. (QC 10.37a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• Consultation is recognized as a strength and <del>personnel are encouraged to</del> <u>the sole practitioner consults</u> on difficult or contentious issues. (QC 10.A37-A38)</li> <li>• When a consultation takes place, those consulted are given all the relevant facts that will enable them to provide informed advice and have appropriate knowledge, authority and experience. (QC 10.A37-A38)</li> <li>• The firm designates individuals <del>within and</del> outside the firm as consultants in certain areas.</li> <li>• <del>The firm requires the person ultimately responsible for the engagement to determine the need to consult.</del></li> <li>• The <del>firm sole practitioner identifies circumstances when firm personnel are expected to consult and</del> defines criteria which require consultation with outside parties.</li> </ul>				
4. The firm's policies and procedures are designed to provide it with reasonable assurance that sufficient resources are available to enable appropriate consultation to take place. (QC 10.37b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• The <del>firm sole practitioner maintains or provides its personnel</del> access to adequate and current reference materials, including materials related to <del>his or her</del> <u>its</u> clients. Those materials include the most current versions of the following: <ul style="list-style-type: none"> <li>o AICPA Professional Standards</li> <li>o AICPA A&amp;A guides relevant to all industries in which the firm practices</li> </ul> </li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>o FASB pronouncements</li> <li>o Any other pronouncements relevant to the firm's practice (for example, SEC pronouncements, GASB pronouncements, Government Auditing Standards (the "Yellow Book"), and other government audit guides relevant to the firm's practice)</li> </ul>				
5. The firm's policies and procedures are designed to provide it with reasonable assurance that the nature and scope of such consultations are documented and are agreed upon by both the individual seeking consultation and the individual consulted. (QC 10.37c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
6. The firm's policies and procedures are designed to provide it with reasonable assurance that the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented. (QC 10.37d)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• The <del>firm requires documentation of sole practitioner documents</del> the following for a consultation: <ul style="list-style-type: none"> <li>o All relevant facts and circumstances</li> <li>o References to professional literature used in the determination</li> <li>o Conclusions reached, and how they were implemented</li> <li>o Signatures of <del>engagement partners</del> <del>sole practitioner</del> and consultant</li> <li>o Reference to the engagement working papers</li> </ul> </li> </ul>				
7. The firm should establish criteria against which all engagements covered by this section should be evaluated to determine whether an engagement quality control review should be performed. (QC 10.38)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• The structure and nature of the firm's practice are given sufficient, appropriate consideration in establishing the criteria for determining which engagements are to be subject to an engagement quality control review. The <del>firm</del> <del>sole practitioner</del> also considers: <ul style="list-style-type: none"> <li>o The nature of the engagement, including the extent to which it involves a matter of public interest;</li> <li>o The identification of unusual circumstances or risks in an engagement or class of engagements; and</li> <li>o Whether laws or regulations require an engagement quality control review. (QC 10.A41)</li> </ul> </li> <li>• The criteria established by the <del>firm-sole practitioner</del> require an engagement quality control review to be performed for any audit engagement in an industry where the firm's practice is limited and the <del>firm's personnel</del> <del>sole practitioner has-have</del> little or no experience.</li> </ul>				

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
8. The firm's policies and procedures should require that if an engagement meets the criteria established, an engagement quality control review should be performed for that engagement. (QC 10.39)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
9. The firm should establish policies and procedures setting out the nature, timing, and extent of an engagement quality control review. Such policies and procedures should require that the engagement quality control review be completed before the report is released. (QC 10.40)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
10. The firm requires the engagement quality control review to include discussion of significant findings and issues with the <del>engagement partner</del> <u>sole practitioner</u> . (QC 10.41a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
11. The firm requires the engagement quality control review to include reading the financial statements or other subject matter information and the proposed report. (QC 10.41b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
12. The firm requires the engagement quality control review to include review of selected engagement documentation relating to significant judgments that the engagement team made and the related conclusions it reached. (QC 10.41c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
13. The firm requires the engagement quality control review to include evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (QC 10.41d)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
14. The firm should establish policies and procedures to address the appointment of engagement quality control reviewers and to establish their eligibility through the technical qualifications required to perform the role, including the necessary experience and authority, and the degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (QC 10.42)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
15. The firm should establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. Such policies and procedures should provide that although the engagement quality control reviewer is not a member of the engagement team, the engagement quality control reviewer should satisfy the independence requirements relating to the engagements reviewed. (QC 10.43)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
16. The firm's policies and procedures should provide that the engagement quality control reviewer <del>when practicable, is not selected by the engagement partner</del> ; does not otherwise participate in the performance of the engagement during the period of review; does not make decisions for the engagement team; and is not subject to other considerations that would threaten the	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
reviewer's objectivity. (QC 10.43)				
17. The firm's policies and procedures should provide for the replacement of the engagement quality control reviewer when the reviewer's ability to perform an objective review is likely to have been impaired. (QC 10.44)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
18. The firm should establish policies and procedures on documentation of the engagement quality control review, which require documentation that the procedures required by the firm's policies on engagement quality control review have been performed; the engagement quality control review has been completed before the report is released; and the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments that the engagement team made and the conclusions it reached were not appropriate. (QC 10.45)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
19. The firm should establish policies and procedures for addressing and resolving differences of opinion within the engagement team; with those consulted; and, when applicable, between the <del>engagement partner</del> sole practitioner and the engagement quality control reviewer (QC 10.46)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
20. Such policies and procedures should enable a member of the engagement team to document that member's disagreement with the conclusions reached after appropriate consultation (QC 10.47)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
21. Such policies and procedures should require that conclusions reached be documented and implemented and that the report not be released until the matter is resolved (QC 10.48)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
22. The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been released. (QC 10.49)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><i>The <del>firm</del> sole practitioner complies with professional standards, laws or regulation that prescribe time limits by which the assembly of final engagement files must be completed. When no such time limits are prescribed, the <del>firm</del> sole practitioner establishes time limits that reflect the need to complete the assembly of final engagement files on a timely basis. (QC 10.A53)</i></li> </ul>				
23. The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation.(QC 10.50)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
24. The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____



Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
firm, professional standards, laws, and regulations. (QC 10.51)				
<b>F. Monitoring</b>				
1. The firm should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. (QC 10.52)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li>• <i>The firm's monitoring policies and procedures are designed to evaluate</i> <ul style="list-style-type: none"> <li>○ <i>adherence to professional standards and applicable legal and regulatory requirements;</i></li> <li>○ <i>whether the system of quality control has been appropriately designed and effectively implemented; and</i></li> <li>○ <i>whether the firm's quality control policies and procedures have been operating effectively so that reports that are issued by the firm are appropriate in the circumstances. (QC 10.A63-.A65)</i></li> </ul> </li> <li>• <i>The firm's monitoring policies and procedures include the following:</i> <ul style="list-style-type: none"> <li>○ <i>Review of selected administrative and personnel records pertaining to the quality control elements</i></li> <li>○ <i>Discussions with the firm's <u>per-diem</u> personnel (if any)</i></li> <li>○ <i>Determination of corrective actions to be taken and improvements to be made in the system, including providing feedback into the firm's policies and procedures relating to education and training</i></li> <li>○ <del><i>Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with the system</i></del></li> <li>○ <i>Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures (QC 10.A63-.A65)</i></li> </ul> </li> <li>• <i>The firm's monitoring policies and procedures also include assessments of:</i> <ul style="list-style-type: none"> <li>○ <i>The appropriateness of the firm's guidance materials and any practice aids</i></li> <li>○ <i>New developments in professional standards and legal and regulatory requirements and how they are reflected in the firm's policies and procedures, when appropriate</i></li> <li>○ <i>Written confirmation of compliance with policies and procedures on independence</i></li> <li>○ <i>The effectiveness of continuing professional development, including training</i></li> <li>○ <i>Decisions related to acceptance and continuance of client relationships and specific engagements</i></li> <li>○ <del><i>Firm-Per-diem</i></del> <i>personnel's understanding of the firm's quality control policies and procedures and implementation thereof (QC 10.A63-.A65)</i></li> </ul> </li> </ul>				
2. The firm's monitoring process should include an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—



Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements. (QC 10.52a)				
3. The firm's monitoring process should require responsibility for the monitoring process to be assigned to <del>the sole practitioner a partner or partners</del> or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility. (QC 10.52b)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p><i>In concluding on whether the firm's QCPP are designed to comply with the standard, consider whether the firm's documented QCPP are designed to assure that</i></p> <ul style="list-style-type: none"> <li><del>If the firm has a limited number of persons with sufficient and appropriate experience and authority to perform inspections,</del> <i>The firm engages a suitably qualified external person or another firm to perform engagement inspections and other monitoring procedures. (QC 10.A73)</i></li> <li><i>Individuals responsible for the inspection and other monitoring procedures have sufficient experience and authority to assume that responsibility, including</i> <ul style="list-style-type: none"> <li><i>sufficient training, experience and competence to execute their responsibilities;</i></li> <li><i>no history of limitations or restrictions on their ability to practice public ac-counting; and</i></li> <li><i>no history of acting as engagement partner on a materially non-conforming engagement that was uncovered through peer review, monitoring, or regulatory inspection.</i></li> </ul> </li> </ul>				
4. The firm's monitoring process should assign the performance of monitoring the firm's system of quality control to qualified individuals. (QC 10.52c)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
5. The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either <ul style="list-style-type: none"> <li>a. instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements and that the reports issued by the firm are appropriate in the circumstances or</li> <li>b. systemic, repetitive, or other significant deficiencies that require prompt corrective action. (QC 10.54)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. The firm should communicate to <del>relevant engagement partners, and other appropriate personnel,</del> <u>any</u> deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (QC 10.55)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
7. Recommendations for appropriate remedial actions for deficiencies noted should include one or more of the following: <ul style="list-style-type: none"> <li>a. Taking appropriate remedial action in relation to an individual engagement or member of personnel</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
<ul style="list-style-type: none"> <li>b. The communication of the findings to those responsible for training and professional development</li> <li>c. Changes to the quality control policies and procedures</li> <li>d. Disciplinary action against those who fail to comply with the policies of the firm, especially those who do so repeatedly (QC 10.56)</li> </ul>				
<p>8. The firm should establish policies and procedures to address cases when the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures should require the firm to</p> <ul style="list-style-type: none"> <li>a. determine what further action is appropriate to comply with relevant professional standards and legal and regulatory requirements and</li> <li>b. consider whether to obtain legal advice. (QC 10.57)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p>9. The firm should communicate, at least annually, the results of the monitoring of its system of quality control to <del>engagement partners and other</del> appropriate individuals within the firm, <del>including the firm's leadership</del>. This communication should be sufficient to enable the firm and these individuals to take prompt and appropriate action, when necessary, in accordance with their defined roles and responsibilities to provide a basis for them to rely on the firm's system of quality control. Information communicated should include the following:</p> <ul style="list-style-type: none"> <li>a. A description of the monitoring procedures performed</li> <li>b. The conclusions drawn from the monitoring procedures</li> <li>c. When relevant, a description of systemic, repetitive, or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. (QC 10.58)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p>10. Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. When firms within a network operate under common monitoring policies and procedures designed to comply with this section, and these firms place reliance on such a monitoring system, the firm's policies and procedures should require that</p> <ul style="list-style-type: none"> <li>a. at least annually, the network communicate the overall scope, extent, and results of the monitoring process to appropriate individuals within the network firms and</li> <li>b. the network communicate promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standard Requirement	Firm's documented QCPP designed to comply with standard?			Comments, Findings Noted
	Yes	No <sup>2</sup>	N/A	
firms or the network advise otherwise. (QC 10.59)				
<p>11. The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with</p> <p>a. complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements and</p> <p>b. allegations of noncompliance with the firm's system of quality control.</p> <p>As part of this process, the firm should establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. (QC 10.60)</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<p>12. If, during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures, or instances of noncompliance with the firm's system of quality control by an individual or individuals are identified, the firm should take appropriate actions. (QC 10.61)</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

**APPENDIX A**

**EXPLANATION OF “NO” ANSWERS AND OTHER COMMENTS**

This appendix is provided for your comments on all “No” answers or to expand upon any of the “Yes” answers. All “No” answers must be thoroughly explained and reviewed with the person or persons assigned operational responsibility for the firm’s system of quality control.

<b>Ques. No.</b>	<b>Explanatory Comments</b>	<b>Disposition of Comments<sup>3</sup></b>
_____	_____	_____
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_____	_____	_____



<sup>3</sup> In concluding on the disposition of “no” answers, the reviewer should determine whether

- The issue can be resolved (for example, the answer to the checklist question should have been “yes”);
- The issue is not significant enough to warrant the preparation of an MFC form; or
- An MFC form should be prepared.

**AICPA Peer Review Program**  
**GUIDELINES FOR TESTING COMPLIANCE WITH**  
**QUALITY CONTROL POLICIES AND PROCEDURES**  
**FOR ~~FIRMS WITH TWO OR MORE PERSONNEL~~ A SOLE PRACTITIONER WITH NO PERSONNEL**<sup>1</sup>

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Firm	Prepared By	Date
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**.01** This questionnaire should be completed by the reviewer when testing compliance with the firm’s quality control policies and procedures **after the planning phase of the review**. The questionnaire has been developed for ~~firms with two or more personnel~~ review of a sole practitioner with no personnel.

**.02** When testing the firm’s compliance with their quality control policies and procedures (QCPP), the reviewer will develop a plan for the nature and extent of compliance testing and document the plan in the *Summary Review Memorandum*. The number and type of tests will be based upon the reviewer’s assessment of peer review risk.

**.03** At a minimum, all “required” procedures must be performed for each review. When the reviewer has identified risks which warrant further consideration, “optional” procedures have been provided for the reviewer to perform as he or she deems necessary.

**.04** If no events relative to the “required” procedures occurred during the peer review year, it may be necessary for a team captain to review evidential matter from prior to the peer review year. If the design of the policies and procedures has changed and the team captain is unable to test compliance with an element of the firm’s system of quality control, a scope limitation for the review should be considered in consultation with the administering entity.

**.05** Any “no” answers identified when testing the firm’s compliance with quality control policies and procedures should be documented in Appendix A.

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
<b>A. Leadership Responsibilities for Quality Within the Firm (“Tone at the Top”)</b>					
<b>Required Procedures</b>					
QC 10.18	1. Obtain the firm's documented QCPP and verify that the documentation addresses all elements of the firm's system of quality control and was updated during the peer review year, as applicable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

<sup>1</sup> The term *personnel* is defined in QC section 10, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*) as all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs (including leased and per diem employees who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or attestation engagements, or those professionals who have the partner-level or manager-level responsibility for the overall supervision or review of such engagements).

<sup>2</sup> Document disposition of “no” answers in appendix A.

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.18	2. Verify through review of correspondence that <del>changes to</del> the firm's <del>QCPP and any changes to those quality control</del> policies and procedures were communicated to <u>per diem</u> personnel <del>(if applicable)</del> in a timely manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<del>QC 10.18</del>	<del>3. Interview firm personnel and verify that they are familiar with the firm's policies and procedures and that the firm sets appropriate expectations relative to quality control.</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	==
<b>Optional Procedures</b>					
QC 10.18	<del>4.3.</del> Select a sample of <del>new hires</del> <u>per diem personnel (if applicable)</u> and confirm that they have received the firm's quality control document or have otherwise received a description of the firm's quality control policies and procedures.	<input type="checkbox"/>	<input type="checkbox"/>		—
<del>QC 10.18</del>	<del>5. Interview firm personnel and verify that</del> <del>a. They were notified of any changes to the firm's QCPP during the peer review year; and</del> <del>b. The training they have received on the firm's system of quality control is consistent with firm policy.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
<del>QC 10.19</del>	<del>6. Interview firm personnel and verify that</del> <del>a. The firm promotes a culture that emphasizes the importance of quality;</del> <del>b. The firm has the right balance between emphasizing budget and quality;</del> <del>c. They have not been expected to meet an unrealistic deadline such that the quality of their work was affected;</del> <del>d. They have not felt pressure to skip planned procedures due to time constraints;</del> <del>e. They are encouraged to provide management with feedback on the system of quality control and understand the process for doing so.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.20	<del>7. Review the QC director's personnel file and other available information to assess whether the individual has sufficient and appropriate experience and ability to assume that responsibility. Confirm that the QC partner:  a. Has sufficient and appropriate experience and ability to serve in that capacity,  b. Has taken industry specific CPE in any high risk areas (e.g. must select industries) he or she reviews, and  c. Has no documented history of performance issues identified through regulator inspections, internal monitoring or peer review.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.20	<del>8. Via inquiry of the QC director, confirm that he or she has the necessary authority to implement policies and procedures that would improve quality, and gets the appropriate approvals for new policies and procedures before they go into effect.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==

## B. Relevant Ethical Requirements

### Required Procedures

QC 10.21	1. Review the firm's guidance materials regarding applicable independence, integrity and objectivity requirements. Confirm that they have been updated to reflect current requirements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	---
QC 10.21	2. Review the policies put in place by the firm to monitor its independence with respect to financial statement audits. Consider the results of reviews of engagements and assess whether the firm's policies were complied with.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	---
QC 10.21	3. Select a sample of situations in which independence, integrity, and objectivity questions arose and verify that the resolution of such questions was appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	---
QC 10.21	4. If the firm accepted one or more engagements where it acted as principal auditor or accountant and another firm of CPAs was engaged to perform segments of the engagement, on a test basis:  a. Determine whether the firm made sufficient inquiries concerning the professional reputation of the other auditor(s).  b. Verify that written confirmations were obtained regarding the other firm's independence with respect to audit engagements and either written or oral confirmations were obtained for review or attestation engagements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	---

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.22	5. <del>If applicable, review</del> Review evidence of the correspondence to personnel regarding changes in the firm's clients to which independence policies apply.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
QC 10.22	6. Consider the actions taken by the firm when threats to independence were identified. Verify that the firm took appropriate actions, including withdrawing from an engagement or issuing the appropriate report in the circumstances if effective safeguards could not be applied.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<del>QC 10.22</del>	<del>7. Interview firm personnel and verify that they have a sufficient understanding of the procedures the firm has implemented to ensure an independent relationship with its accounting and auditing clients.</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	==
QC 10.25	<del>8.7.</del> Select a <u>the sole practitioner and a</u> sample of <u>per diem</u> personnel ( <u>if applicable</u> ) and review the written representations (required by SQCS No. 8) obtained by the firm regarding independence, integrity, and objectivity. Confirm that representations were obtained for all selected personnel within the peer review year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>Optional Procedures</b>					
QC 10.21	<del>9.8.</del> Via inquiry of the <u>sole practitioner, individual assigned with responsibility for providing guidance, answering questions, monitoring compliance and resolving matters with respect to independence, integrity and objectivity</u> (“relevant ethical requirements”), confirm that he or she  <del>a.</del> <u>Understands the responsibilities they have been assigned;</u>  <del>b.a.</del> <u>Understands what is required from an independence perspective when the firm accepts an engagement where it acts as principal auditor or accountant and another firm is engaged to perform segments of the engagement; and</u>  <del>e.</del> <u>Has implemented and complied with procedures to assure the firm's independence as required by the AICPA, state CPA societies, state boards of accountancy, state statute, the SEC and other regulatory bodies; and</u>  <del>d.b.</del> <u>Perceives that he or she has the authority to resolve matters with respect to independence, integrity and objectivity.</u>	<input type="checkbox"/>	<input type="checkbox"/>		—



Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
<del>QC 10.21</del>	<del>10. Interview firm personnel and verify that a.— Independence training has been provided in a manner consistent with the QCPP; b.— They have a sufficient understanding of the consultation resources available for independence matters.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
QC 10.22	<del>11.9.</del> Via inquiry of the <del>individual assigned with responsibility for relevant ethical requirements</del> <u>sole practitioner</u> , determine how threats to independence were evaluated and addressed, and verify that treatment of threats was appropriate in the circumstances.	<input type="checkbox"/>	<input type="checkbox"/>		_____
<del>QC 10.22</del>	<del>12. Interview firm personnel and verify that the firm informs them of their policies and procedures for relevant ethical requirements, including the types of financial or other relationships that may impair independence and that may be prohibited.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
<del>QC 10.23</del>	<del>13. Via inquiry of the individual assigned with responsibility for relevant ethical requirements, confirm that engagement partners provide the individual with relevant information about client engagements, including scope of services, to enable them to evaluate the overall effect, if any, on independence requirements.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
<del>QC 10.23</del>	<del>14. Via inquiry of an engagement partner, verify that when engagement acceptance or continuance decisions are made, they provide appropriate information to the individual responsible for matters with respect to independence, integrity and objectivity to enable them to evaluate the overall effect on independence requirements.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
QC 10.23	<del>15.10.</del> If the firm's criteria for consulting with individuals outside the firm on independence, integrity or objectivity concerns were met, obtain evidence that individuals outside of the firm were consulted.	<input type="checkbox"/>	<input type="checkbox"/>		_____
<del>QC 10.23</del>	<del>16. Interview firm personnel and verify that the firm notifies them of new clients and they understand how to communicate potential independence conflicts.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
QC 10.24	<del>17.11.</del> Via inquiry of the <del>individual assigned with responsibility for relevant ethical requirements</del> , verify that the <del>individual</del> <u>sole practitioner</u> performs regular reviews of unpaid fees from clients to ascertain whether any outstanding amounts may impair the firm's independence.	<input type="checkbox"/>	<input type="checkbox"/>		_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.24	<del>18.12.</del> If any situations were noted where the firm, <del>its personnel or both were</del> was not independent or failed to meet the requirements of ET 1.295, verify, via inquiry of the <del>engagement partner/sole practitioner</del> , that the firm's independence policies and procedures were followed and that the actions taken to resolve the matter were appropriately <del>communicated to the firm</del> .	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.24	<del>19.13.</del> Select a sample of engagements for which the firm has had a long relationship with the client. <del>If the same senior personnel were used on an engagement,</del> confirm that appropriate action was taken to address the familiarity threat. Appropriate actions include <del>engaging a knowledgeable third-party to serve as senior staff on the engagement, rotating partners, rotating senior staff,</del> conducting EQCR or withdrawing from the engagement.	<input type="checkbox"/>	<input type="checkbox"/>		—
<del>QC 10.25</del>	<del>20. Interview firm personnel and verify that staff are asked to make written representations of their independence with respect to firm clients on an annual basis.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==

### C. Acceptance and Continuance of Client Relationships and Specific Engagements

#### Required Procedures

QC 10.27	<p>1. Select a sample of acceptance and continuance decisions, review the documentation for those decisions, and verify that the firm:</p> <ul style="list-style-type: none"> <li>a. Complied with its own policies and procedures and with the requirements of professional standards</li> <li>b. Had the required knowledge and expertise to perform the engagements</li> <li>c. Evaluated management's integrity</li> <li>d. Documented its understanding with the client regarding the services to be performed</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
QC 10.27	<p>2. Select a sample of new engagements and verify that the firm:</p> <ul style="list-style-type: none"> <li>a. Communicated with predecessor auditors regarding management's integrity, history of correcting the predecessor auditor's findings and the reason for the change; and</li> <li>b. Estimated the resources necessary to complete the engagement before the proposal was submitted.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.27	3. Verify that <del>firm partners and managers are aware of</del> the firm's policies and procedures for acceptance and continuance of client relationships and specific engagements <u>are consistent with what is done in practice</u> and that they are followed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
QC 10.30	4. If any client relationships were discontinued, select a sample of such situations and verify that the firm's procedures for withdrawal were followed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<b>Optional Procedures</b>					
QC 10.27	5. Verify, via inquiry of <del>an engagement partner</del> <u>the sole practitioner</u> , that the firm's policies and procedures for assessing the integrity of a client before accepting the engagement are followed.	<input type="checkbox"/>	<input type="checkbox"/>		—
<del>QC 10.27</del>	<del>6. If the firm's quality control policies and procedures require each client acceptance and continuance decision to be considered by someone other than the engagement partner, select a sample of such decisions made in the last three years and confirm that the policy was adhered to.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
<del>QC 10.27</del>	<del>7. Verify, via inquiry, that the individual responsible for evaluating and making recommendations as to whether a client or specific engagement should be accepted or continued understands their responsibilities.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.28	<del>8.6.</del> If the firm identified any issues relative to Ethics Interpretation 102-2, "Conflicts of Independence", and ultimately decided to accept or continue the client relationship or specific engagement, determine how the conflicts of interest were resolved. Verify that the resolution was appropriate and in conformity with professional standards.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.30	<del>9.7.</del> If the firm considered discontinuing any audit and accounting client relationships but decided to continue, review the factors consider and verify that the firm's decision will not increase the risk that the firm will fail to perform and report in conformity with applicable professional standards.	<input type="checkbox"/>	<input type="checkbox"/>		—
<b>D. Human Resources</b>					
<b>Required Procedures</b>					

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.31	<p><del>1. Select a sample of new hires, including those joining the firm through mergers or at supervisory levels. Obtain each individual's personnel file, and complete the following:</del></p> <p><del>a. Review the documentation and verify that the individual possessed the desired attributes, achievements, and experience required by the firm. If the individual did not possess the requisite qualifications, ascertain from other documentation or by inquiry that an exception was appropriately made.</del></p> <p><del>b. Verify that the background information and other documentation required by firm policy were obtained.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	=====
QC 10.31	<p><del>2.1. Review the firm's CPE records (sole practitioner and per diem personnel) on a test basis and confirm that they demonstrate the following:</del></p> <p><del>a. The firm provided CPE to and maintained CPE records for professional personnel.</del></p> <p><del>b.a. Personnel participated in CPE in subjects that are relevant to the engagements they perform and their responsibilities in the firm.</del></p> <p><del>e-b. If, prior to the commencement of the peer review, the firm identified instances where personnel are not meeting requirements, verify that the firm has established an appropriate plan for correcting the situation.</del></p> <p><del>d-c. The firm was in compliance with its plans for its CPE program and with the CPE requirements of the following:</del></p> <p><del>i. Board(s) of accountancy in state(s) in which the firm's personnel is licensed</del></p> <p><del>ii. AICPA (if applicable)</del></p> <p><del>iii. State CPA society (if applicable)</del></p> <p><del>iv. Government Auditing Standards—the "Yellow Book" (if applicable)</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.31	<p><del>3.— Determine the degree to which personnel training is conducted in-house. If the firm presents a significant amount of in-house training, select a sample of such programs for review and verify that the following are true:</del></p> <p><del>a.— The developer is qualified and has obtained any necessary approvals. For example, a sponsor number from the appropriate state board of accountancy.</del></p> <p><del>b.— The course is technically accurate, current, and contributes to the professional competence of the attendees.</del></p> <p><del>c.— The instructor is qualified.</del></p> <p><del>d.— The participants and instructor evaluate the course and appropriate action is taken when the evaluations are not favorable.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	====
QC 10.31	<p><del>4.— Interview firm personnel and verify that they believe the firm's CPE and on-the-job training are appropriate and effective.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	====
QC 10.32	<p><del>5.— Review the firm's standardized personnel evaluation form and compensation/advancement criteria (if applicable). Verify that the quality of performance receives greater weighting than commercial considerations.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	====
QC 10.32	<p><del>6.— Select a sample of personnel, review their personnel files, personnel evaluations, or other documentation, and verify that personnel are reviewed, evaluated, and promoted in accordance with firm policy, with evaluations being performed at least annually.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	====
QC 10.32	<p><del>7.— Review job descriptions and responsibilities for managers, seniors et al and confirm they are reasonable for the firm.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	====
QC 10.32	<p><del>8.— Interview firm personnel and verify that the firm's QCPP are followed when compensation and advancement decisions are made.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	====
QC 10.33	<p><del>9.2. Select a sample of practitioners responsible for engagements in must select industries and areas. Interview the <u>sole</u> practitioners and verify that they <u>have</u> <del>have</del> an understanding of the industries and areas they serve <del>y or area</del> and the standards that apply to their <u>clients</u> <del>they have been assigned</del>.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.33	<del>10. Select a sample of report signors and review their personnel evaluations. Confirm that those evaluations include an assessment of whether they have exhibited the knowledge, skills and abilities (competencies) necessary to qualify them to perform the firm's accounting, auditing or attestation engagements.</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	====
QC 10.34	<del>11.3.</del> Select a sample of engagement teams <u>which included per diem personnel (if applicable)</u> and review documentation of the factors considered in making those assignments. Confirm that the factors listed in QC Section 10 par. .A11 were considered <u>and</u> , firm policies and procedures were adhered to, <del>and that the engagement partner approved the engagement team prior to the commencement of the engagement.</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.34	<del>12.4.</del> Select a sample of personnel ( <u>sole practitioner and per diem personnel</u> ) and review the firm's documentation regarding licensure. Verify that, when required, licenses were active (through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork) in the states in which the individuals primarily practiced public accounting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>Optional Procedures</b>					
QC 10.31	<del>13. Verify via inquiry that the individual responsible for the firm's hiring and human resources management understands their responsibilities and is familiar with the firm's criteria for determining which individuals will be involved in the interviewing and hiring process.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
QC 10.31	<del>14. Interview a new hire. Verify that firm policies relative to orientation and training for new hires were adhered to and that he or she is familiar with the firm's policies relative to passing the Uniform CPA Examination and participation in other professional development activities.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
QC 10.31	<del>15. Interview the individual responsible for the firm's professional development activities, including maintaining CPE records. Verify via inquiry that the individual understands and is executing their responsibilities.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.31	<del>16. Interview firm personnel and verify that a. The firm provides them with CPE in subjects that are relevant to their responsibilities; b. The firm informs personnel of changes in accounting and auditing standards, independence, integrity and objectivity requirements and the firm's technical policies and procedures with respect to them in a timely manner; and c. The firm encourages personnel to pass the Uniform CPA Examination and to participate in other professional development activities.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.31	<del>17. Interview firm personnel and verify that a. Personnel evaluations are conducted in a manner consistent with the firm's QCPP; and b. Evaluations are effective in helping personnel understand what is required for advancement.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.32	<del>18. Select a sample of partner and experienced staff evaluations. Confirm that the evaluation addressed feedback based on monitoring results, peer reviews and regulatory inspections; identification of significant and emerging accounting and auditing issues; and consultation with firm experts when challenging issues arise.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.32	<del>19. Interview the individual responsible for making advancement/termination decisions and developing the evaluation form for each professional classification. Verify that the individual understands and is executing their responsibilities consistent with the firm's policies and procedures.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.32	<del>20. Interview one or more individuals responsible for periodically evaluating the performance of personnel. Verify that they understand and are executing their responsibilities consistent with the firm's policies and procedures.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.32	<del>21. Select a sample of personnel and review their personnel evaluations. Confirm that those evaluations address performance, an assessment of their knowledge, skills and abilities, their progress within the firm, and the individual's career objectives and how they can be reached</del>	<input type="checkbox"/>	<input type="checkbox"/>		==

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.33	<p><del>22.5.</del> Select a sample of engagements which were found to be materially non-conforming after report issuance. Verify <del>through corroborative inquiry</del> that the <del>firm sole practitioner</del> took appropriate action <del>in addressing the performance of the engagement partner</del>. For example, the <del>firm sole practitioner</del> may:</p> <p>a. <del>Require the engagement partner to</del> Take relevant CPE and <del>required engage a qualified third-party to perform</del> EQCR on <del>the engagement partner's</del> future engagements in that industry or area, <del>or</del></p> <p>b. <del>Prohibit the engagement partner from</del> Elect not to performing future engagements in that industry or area, <del>or</del></p> <p>c. <del>Dismiss the engagement partner</del></p> <p>Verify that the firm's decision was properly implemented (e.g. by reviewing the engagement listing and confirming that <del>no the engagement partner did not serve on any</del> engagements in that industry or area <del>were performed</del> after the <del>firm's</del> decision <del>was made</del>).</p>	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.34	<p><del>23.6.</del> Select an audit engagement in an industry or area in which the firm performs a limited number of engagements and review the <del>engagement team's</del> <del>sole practitioner's</del> competence, capabilities and resources to undertake the engagement, with a focus on <del>the</del> education and experience <del>of the team</del>. Conclude on whether the <del>engagement team's</del> <del>sole practitioner</del> was competent to perform the engagement <del>and verify that a knowledgeable third-party was engaged to assist with the performance of the engagement if appropriate.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>		—
<del>QC 10.34</del>	<p><del>24. Select a sample of new audit engagements in high-risk industries or areas. Assess the qualifications and experience of the engagement team and the adequacy of the resources assigned to the engagement. Verify that the firm engaged a knowledgeable third-party to assist with the performance of the engagement if appropriate.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>		==
<del>QC 10.34</del>	<p><del>25. Interview firm personnel and verify that</del></p> <p>a. <del>They believe they have had the technical training and proficiency required to perform their assignments, considering the nature and extent of supervision provided; and</del></p> <p>b. <del>They are adhering to the firm's QCPP when preparing for engagements in industries they have not previously served.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>		==



Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
<b>E. Engagement Performance</b>					
<b>Required Procedures</b>					
QC 10.35	<p>1. If the firm develops their own QCM, in accordance with Peer Review Standards' Interpretations 42-2 and 42-3,</p> <p>a. Obtain an understanding of, and assess, the firm's policies and procedures for developing and maintaining QCM (for example, making updates and revisions), ensuring the reliability of the QCM, and ensuring the suitability of the QCM for the firm.</p> <p>b. Through the procedures performed, verify that the internally developed QCM are reliable and suitable, and that the firm's quality control policies and procedures for developing and maintaining the QCM are appropriately designed and implemented.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.35	<p>2. If the firm uses third-party developed QCM, in accordance with Peer Review Standards' Interpretations 42-2 and 42-3,</p> <p>a. Obtain an understanding of, and assess, the firm's quality control policies and procedures for adopting, updating and modifying third-party QCM, ensuring the reliability of the QCM and ensuring the suitability of the QCM for the firm.</p> <p>b. If the QCM underwent a QCM review, obtain a current QCM review report to determine the scope of the review and the degree of reliance that can be placed on the results. (Copies of current QCM review reports and acceptance letters can be obtained either from the AICPA website or from the reviewed firm.</p> <p>c. If any QCM used by the firm did not undergo a QCM review, assess the firm's quality control policies and procedures for ensuring the reliability and suitability of the QCM in accordance with Peer Review Standards Interpretation 42-2 and 42-3.</p> <p>d. Through the procedures performed, verify that the third party developed QCM are reliable and suitable, and that the firm's quality control policies and procedures for adopting, updating and modifying the QCM are appropriately designed and implemented.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.35	<p>3. Determine whether any standardized forms, disclosure checklists, or other checklists or questionnaires utilized by the firm are appropriate for the firm.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.35	4. Examine the firm's documentation of its firm licenses and confirm that they were active (through the earlier of reviewed engagements' issuance dates or the date of peer review field-work) in the states <del>in which the practice unit is domiciled (main office is located) and in any other states</del> where the firm performs attest engagements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.37	5. Review the firm's reference materials for its audit and accounting practice. Verify that they contain both recent pronouncements and comprehensive literature appropriate for the firm's specialties (including current A&A guides) and were updated on a timely basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.37	6. Select a sample of consultations <del>including at least one involving an</del> with outside parties <del>y</del> and verify the following: <ul style="list-style-type: none"> <li>a. All relevant facts and circumstances appear to have been provided to the party or parties consulted.</li> <li>b. The advice given appears reasonable based on the relevant facts and circumstances and is consistent with professional standards.</li> <li>c. The firm acted in a manner consistent with professional standards and with the firm's policies and procedures.</li> <li>d. The extent of required consultations was appropriately comprehensive.</li> <li>e. The requirements for documentation were met.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.37	7. Interview <del>firm personnel</del> the sole practitioner and verify that consultation is being conducted <del>with</del> when difficult technical issues arise.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.38	8. Select a sample of engagements where an EQCR was required under the firm's policies and procedures. Verify that: <ul style="list-style-type: none"> <li>a. <u>The procedures required by the firm's policies on EQCR were performed</u></li> <li>b. The EQCR was completed prior to the report release date, and any significant matters identified through the EQCR were resolved before the report was released</li> <li>c. The individual(s) performing the engagement quality control review was appropriately qualified and was assigned in accordance with the firm's policies and procedures</li> <li>d. The EQCR was documented as required by professional standards</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
<b>Optional Procedures</b>					
QC 10.35	9. Review the firm's QCM. Verify that the firm acquired or developed industry-specific quality control materials for all industries in which they practice.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.35	10. <del>Interview the firm's partner responsible for a given</del> Identify the must-select industries <del>and/or areas in which the firm practices.</del> Interview the sole practitioner and ask them about the firm's methodology for addressing nuanced topics and recent pronouncements affecting the industry or area. Assess the partner's <del>sole practitioner's</del> competency to <del>take responsibility for the quality of the firm's practice</del> perform engagements in that area.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.35	11. Review <del>the sole practitioner's</del> CPE records <del>relative to for the partner responsible for a given</del> the must-select industries <del>and areas in which he or she practices.</del> or area. Verify that the <del>sole practitioner partner</del> is up-to-date on any recent changes to standards or guidance.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.35	12. Interview <del>an engagement partner</del> the sole practitioner. Determine how instructions are given and to what extent work is reviewed when the firm uses <del>other offices or</del> correspondents for audit or accounting engagements. Verify that these responses are consistent with firm policy.	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.35	13. Interview firm personnel and verify that a. <del>The procedures appearing in the firm's audit programs differ from client to client based on their unique risks;</del> b. <del>The form and content of audit working paper files are consistent throughout the firm;</del> c. <del>Engagement planning meetings are held prior to the commencement of work on an engagement, appropriate topics are discussed during the meetings, and all personnel assigned to the engagement, including the engagement partner, attend;</del> d. <del>Supervision of engagements is consistent with firm policy and supervisors are readily available throughout performance of the engagement;</del> e. <del>The extent of working paper review is consistent with firm policy; and</del> f. <del>Reports are not being released before the work and reviews are completed.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.36	<del>14. Interview the QC partner. Determine whether there are any circumstances where an engagement team would not include a partner, and if so, verify that a partner of the firm would ultimately still be responsible for the engagement.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.37	<del>15.13. Obtain a list of the firm's designated consultants including each consultant's specialties. Select a sample of consultants and verify, through examination of resumes, that the consultants are qualified to perform their designated responsibilities.</del>	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.37	<del>16. Interview a sample of engagement partners. Determine whether they performed any engagements where the criteria for consultation were met. If the criteria were met, verify that consultations were performed and that the documentation requirements were met.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.37	<del>17. Contact a sample of internal specialists. Determine whether they had any differences of opinion with engagement personnel and, if so, how those differences of opinion were addressed. Verify that any differences of opinion were resolved before report issuance.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.37	<del>18. Interview firm personnel and verify that a. They understand firm policy with respect to consultation and are performing consultations when required; b. They are familiar with the resources available for consultation and utilize them when appropriate; and c. Consultations are documented consistent with firm policy.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.38	<del>19. Interview an engagement partner and verify that they understand the firm's criteria for the performance of engagement quality control reviews.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.38	<del>20.14. Consider the firm's engagement listing and the results of inquiries of <u>leadership</u>the sole practitioner. Verify that EQCR was performed for any audit engagements in an industry where the firm's practice is limited and the <u>firm's personnel</u>sole practitioner <u>has</u> have little or no experience.</del>	<input type="checkbox"/>	<input type="checkbox"/>		—

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.40	<p><del>21.15.</del> Contact an individual who performed an engagement quality control review for the firm.</p> <p>a. Ask about their approach to addressing nuanced topics and recent pronouncements affecting the type of engagement they reviewed. Verify that the individual was competent to perform an engagement quality control review in that area.</p> <p>b. Confirm that they were given sufficient time to complete a sufficiently thorough review</p> <p>c. Verify that appropriate measures were taken to ensure that they met the independence requirements relative to the engagement(s) reviewed.</p> <p>d. Determine their degree of involvement with the engagement, including whether they were consulted, and confirm that they did not make decisions on behalf of the engagement team.</p> <p>e. Determine whether any matters that would cause them to question the <del>engagement team's</del> sole practitioner's judgments and conclusions arose. Confirm that such matters were resolved before report issuance.</p>	<input type="checkbox"/>	<input type="checkbox"/>		—
QC 10.43	<p><del>22.16.</del> Select a sample of engagement quality control reviews and discuss the process for selecting the individual(s) performing the engagement quality control review with the <del>engagement partner's</del> sole practitioner. Confirm that firm policy was adhered to relative to the selection of the individual(s) performing the engagement quality control review.</p>	<input type="checkbox"/>	<input type="checkbox"/>		—
<del>QC 10.46</del>	<p><del>23. Interview an engagement partner and verify that the firm's policies relative to resolving differences of professional judgment on the engagement team are understood and being followed.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>		==
<del>QC 10.47</del>	<p><del>24. Interview firm personnel and verify that they are familiar with firm policy relative to resolving disagreements on the engagement team.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>		==
<del>QC 10.49</del>	<p><del>25. Interview an engagement partner and verify that the firm's time limits for completing the assembly of final engagement files are understood and complied with.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.49	<p><del>26.17.</del> Select a sample of engagements and confirm that the firm has complied with their policies and procedures relative to assembly of final engagement files.</p>	<input type="checkbox"/>	<input type="checkbox"/>		—

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.49	<del>27. Interview firm personnel and verify that firm policies for completing assembly of final engagement files are being adhered to.</del>	<input type="checkbox"/>	<input type="checkbox"/>		====
QC 10.51	<del>28.18. Interview the individual responsible for document retention</del> <u>sole practitioner</u> . Gain an understanding of their process for determining retention periods and verify that it is appropriate.	<input type="checkbox"/>	<input type="checkbox"/>		_____
<b>F. Monitoring</b>					
<b>Required Procedures</b>					
QC 10.52	<p>1. Review the firm's monitoring documentation. Verify that the procedures performed were timely and covered these areas:</p> <p>a. Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control.</p> <p><del>b. Reviewing an appropriate number of offices.</del></p> <p><del>e.b.</del> Reviewing an appropriate number and type of engagements for compliance with professional standards.</p> <p><del>d. Reviewing partners and managers with significant accounting and auditing responsibilities.</del></p> <p><del>e.</del> Reviewing its library and practice aids to determine that they were appropriate and up-to-date.</p> <p><del>f.c. Evaluating professional development programs to determine whether they were achieving their objectives and whether those programs were appropriate for firm personnel.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
QC 10.52	<p>2. <u>If knowledgeable third-parties were engaged to assist with monitoring, Review the personnel files and</u> conduct interviews for a sample of the individuals <del>responsible for the firm's monitoring process, including the individual with overall responsibility for the firm's monitoring.</del> <u>and v</u>Verify that they:</p> <p>a. Have sufficient training, experience and competence to execute their responsibilities</p> <p>b. Were free from any limitations or restrictions on their ability to practice public accounting</p> <p>c. Did not act as engagement partner on one or more materially non-conforming engagements which were uncovered through peer review, monitoring or regulatory inspection</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.52	<p>3. Discuss the firm's approach to monitoring with the <del>responsible individual-sole practitioner</del> and review documentation of the firm's engagement selection for internal inspection. Verify that the firm:</p> <p>a. Took appropriate steps to ensure that the engagement population was complete.</p> <p>b. Selected a reasonable cross section of the levels of service and industries served by the firm.</p> <p><del>c.— Selected a reasonable cross section of the firm's partners</del></p> <p><del>d.c.</del> Targeted selections of entities operating in highly specialized or regulated industries (including financial institutions, governmental entities and employee benefit plans) such that all such industries were included in the inspection</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
QC 10.52	<p>4. Review the materials used in carrying out the monitoring procedures, such as questionnaires, programs, and checklists. Confirm that those materials are sufficiently comprehensive to identify instances of non-conformity with professional standards or the firm's quality control policies and procedures.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
QC 10.58	<p>5. Review monitoring documentation. Verify that the documentation addresses the deficiencies identified through monitoring procedures, an assessment of the significance of those deficiencies, and recommended corrective actions.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
QC 10.58	<p>6. Verify, through inquiry, that the results of the monitoring procedures (procedures performed, conclusions reached, deficiencies noted, and actions planned) were appropriately summarized and communicated to appropriate <u>per diem</u> personnel at least annually.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
QC 10.58	<p>7. Verify <del>, through corroborative inquiry,</del> that appropriate corrective action was taken based on the results of the monitoring procedures, including, if necessary, action pursuant to the requirements of AU-C section 585, Consideration of Omitted Procedures After the Report Date (AICPA, Professional Standards) and AU-C section 560, Subsequent Events and Subsequently Discovered Facts (AICPA, Professional Standards), or supplementing the working papers to document the procedures performed. <del>Review the actions taken by the firm where personnel were not in compliance with CPE requirements of the AICPA and other regulators. Confirm that such actions were appropriate.</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—

Standards Ref.	Procedures performed to test compliance	Firm complied with QCPP?			Comments, Findings Noted
		Yes	No <sup>2</sup>	N/A	
QC 10.58	8. Verify, through corroborative inquiry <u>with per diem personnel</u> , that the firm follows up on planned corrective actions as a result of the monitoring procedures to determine that they were actually implemented.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	—
<del>QC 10.60</del>	<del>9. Verify, through review of monitoring documentation and through inquiry, that the firm interviewed a sample of its personnel regarding the effectiveness of its quality control policies and procedures (including professional development programs) and that the feedback from personnel was addressed.</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	==
<b>Optional Procedures</b>					
<del>QC 10.52</del>	<del>10. Interview the individual responsible for the firm's monitoring process and confirm that he or she feels that they have appropriate authority in the firm to take on that responsibility.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
QC 10.52	<del>11.9. If the firm has a limited number of persons with sufficient and appropriate experience and authority to perform inspections, verify that the firm engaged a suitably qualified external person or another firm to perform engagement inspections and other monitoring procedures, <u>or has otherwise appropriately mitigated the risks posed by self-review.</u></del>	<input type="checkbox"/>	<input type="checkbox"/>		—
<del>QC 10.60</del>	<del>12. Select a sample of complaints and allegations. Verify that they were investigated by a suitably qualified individual who was not otherwise involved in the engagement and the complaints/allegations and responses to them were documented.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==
<del>QC 10.60</del>	<del>13. Interview firm personnel and verify that they are encouraged to raise concerns about noncompliance with professional standards, regulatory and legal requirements, and the firm's system of quality control.</del>	<input type="checkbox"/>	<input type="checkbox"/>		==



APPENDIX A

EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

This appendix is provided for your comments on all "No" answers or to expand upon any of the "Yes" answers. All "No" answers must be thoroughly explained and reviewed with the person or persons assigned operational responsibility for the firm's system of quality control.

<b>Ques. No.</b>	<b>Explanatory Comments</b>	<b>Disposition of Comments<sup>3</sup></b>
_____	_____	_____
_____	_____	_____
_____	_____	_____
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_____	_____	_____

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<sup>3</sup> In concluding on the disposition of "no" answers, the reviewer should determine whether

- The issue can be resolved (for example, the answer to the checklist question should have been "yes");
- The issue is not significant enough to warrant the preparation of an MFC form; or
- An MFC form should be prepared.

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## PRP Section 4700

### *Staff Interview Questionnaire*

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- .01** The review of a CPA firm’s quality control policies and procedures require that personnel <sup>fn 1-</sup>, including per diem personnel, be interviewed. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated and implemented. The interviews should be conducted either in-person or telephonically.
- .02** When soliciting information, reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm.
- .03** The questionnaire developed to guide the reviewer in conducting interviews is included in this section of the manual. At a minimum, all “required” inquiries should be made for each review. When the reviewer has identified risks which warrant further consideration, “suggested” inquiries have been provided for the reviewer to make as he or she deems necessary. ~~It should be tailored as the interviewer deems appropriate.~~
- .04** If no events relative to the “required” inquiries occurred during the peer review year, it may be necessary for a team captain to inquire about events that occurred prior to the peer review year. If the design of the policies and procedures has changed and the team captain is unable to test compliance with an element of the firm’s system of quality control, a scope limitation for the review should be considered in consultation with the administering entity.
- .054** The individuals interviewed should have varying levels of experience and background. The number of individuals interviewed will be affected by the size and nature of the reviewed firm’s practice.
- .065** There may be arrangements where certain portions of the reviewed firm’s system of quality control reside outside the firm, such as but not limited to associations, joint ventures, non-CPA owned entities, arrangements with other personnel outside the firm, third party developed practice aids, or other similar arrangements. This would generally include policies and procedures relating to the following elements of quality control: (1) relevant ethical requirements (such as independence, integrity, and objectivity), (2) human resources, and (3) monitoring of the elements noted in (1) and (2). If this arrangement applies to the reviewed firm, the reviewer should refer to **Peer Review Program (PRP) Manual section 5300, Staff Interview Questionnaire For Non-CPA Owned Entities Closely Aligned With a CPA Firm.**

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<sup>fn 1</sup> The term *personnel* refers to all individuals who perform professional services for which the firm is responsible whether or not they are CPAs (previously referred to as *professional staff*) (Statement on Standards for Quality Control [SQCS] No. 8, *A Firm's System of Quality Control (Redrafted)* (AICPA, *Professional Standards*, QC sec. 10, par. .12).

## Staff Interview or Focus Group Session Guide

The following sets forth guidance related to staff interview or focus group sessions in the conduct of a peer review:

**Objective**—To enhance candid discussion with an individual staff or focus group to obtain corroborative evidence that certain policies and procedures have been properly communicated and implemented.

- ~~• identify differences in understanding the firm's quality control policies and procedures between the firm's management and its staff.~~
- ~~• obtain objective feedback related to the functional elements of the reviewed firm's system of quality control.~~
- ~~• obtain qualitative or subjective feedback related to the firm, professional standards, or the peer review process.~~

## Staff Interview/Focus Group Criterion

- Focus groups are preferable to one on one staff interviews in firms where the size of the audit and accounting practice permits.
- Discussion leader should be a peer review team member to enhance open and candid discussion.
- This form, and the following questions, should be used as a guide in conducting individual staff interviews or focus group sessions.
- If conducting focus group sessions, it is preferable to conduct two separate sessions—a manager session and a senior session.
- Focus group size—Based on team captain judgment but typically 3–5 participants from the same peer group (that is, all managers or all seniors).
- Partners from the reviewed firm should not participate because this may inhibit open candid discussion.

## Techniques for Conducting Staff Interviews or Focus Group Sessions

- Encourage an environment for open, candid discussion by the participants.
- The interviewer/discussion leader should perform the following prior to the beginning of the review:
  - Consider reviewing each participant's personnel files to better understand their background.

- Make an announcement to the participants prior to beginning the session stating
  - the purpose of the session as it affects the participants, the firm, and the profession.
  - that any comments or opinions expressed by the participants during the session will be strictly confidential. Comments will be communicated to the firm, but the source of the comments will not.
- The interviewer/discussion leader should build rapport with the group in an effort to maximize the groups’ effectiveness. This can be done by
  - encouraging creative discussion.
  - the discussion leader sharing self-deprecating experiences or stories.
  - promoting the confidentiality aspect of the session.

**Staff Interview/Focus Group Questions  
(for System Reviews commencing on or after January 1, ~~2017~~2009)**

Office Code No.: \_\_\_\_\_

Interviewee/Group Code: \_\_\_\_\_

Type of Session:  Staff Interview     Focus Group Session

Level of Interviewee or Focus Group:

**If Focus Group, Number of Participants From The Reviewed Firm:**

1. Leadership Responsibilities for Quality Within the Firm (Required) Introduction—What are the firm’s expectations with respect to quality control? What policies and procedures does the firm have in place, and how does the firm’s management communicate and monitor these policies and procedures ~~related to each of the following?~~ (QC 10.18)

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• <del>Leadership responsibilities for quality within the firm (the “tone at the top”)</del></li> <li>• <del>Relevant ethical requirements</del></li> <li>• <del>Acceptance and continuance of client relationships and specific engagements</del></li> </ul> | <ul style="list-style-type: none"> <li>• <del>Human Resources (CPE)</del></li> <li>• <del>Engagement performance</del></li> <li>• <del>Monitoring (Firm inspections)</del></li> </ul> |
|--|---|

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Suggested Inquiries

- Were you notified of any changes to the firm’s QCPP during the peer review year? (QC 10.18)
- When were you last trained on the firm’s QCPP and what did that training entail? (QC 10.18)
- How does the firm promote a culture that emphasizes the importance of quality? (QC 10.19)
- Does the firm have the right balance between emphasizing budget and quality? (QC 10.19)
- Have you ever been expected to meet an unrealistic deadline such that the quality of your work was affected? (QC 10.19)
- Have you ever felt pressure to skip planned procedures due to time constraints? (QC 10.19)
- What happens if the engagement team goes significantly over the budgeted hours for the engagement? (QC 10.19)
- Are you encouraged to provide management with feedback on the system of quality control? What process would you follow if you wanted to provide feedback? (QC 10.19)

Consideration—Take a moment to explain each element of quality control.

2. Relevant Ethical Rrequirements (Required)—What procedures has the firm implemented to ensure an independent relationship with its accounting and auditing clients? (QC 10.22)

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~~Consider the following:~~Suggested Inquiries

- What independence training courses are provided, and has every staff person had independence training? (QC 10.21)
- ~~What are the independence policies and how are they communicated and monitored by executive management?~~
- What consultation resources are available for independence? (QC 10.21)
- How can the firm better assist you with potential independence conflicts? (QC 10.22)
- How does the firm inform you of their policies and procedures for relevant ethical requirements, including the types of financial or other relationships that may impair independence and that may be prohibited? (QC 10.22a)
- How is the staff notified about new clients? How are they asked to communicate poten-

tial independence conflicts with these new clients? (QC 10.22; QC 10.23b)

- If you had a potential independence conflict with a client, what would you do? (QC 10.23b)
- What would you do if you had an independence conflict with a client of the firm that was not one of your clients? (QC 10.23b)
- How often is the staff asked to make a written representation of its independence with respect to the firm’s clients? (QC 10.25)

3. Human Resources (Required) — Do you believe the firm’s CPE and on-the-job training are appropriate and effective? (QC 10.31) How do you learn your profession at the firm, and what methods work best for you?

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Consider the following: Suggested Inquiries

- What tTypes of training are offered at the firm (on the job training, group CPE, self-study CPE)? (QC 10.31)
- In your experience, has the firm provided you with CPE in subjects that are relevant to your responsibilities? (QC 10.31)
- How interactive is the CPE? (QC 10.31)
- How would you improve the firm’s CPE? (QC 10.31)
- Does the firm inform personnel of changes in accounting and auditing standards, independence, integrity and objectivity requirements and the firm’s technical policies and procedures with respect to them in a timely manner? (QC 10.31)
- Does the firm encourage personnel to pass the Uniform CPA Examination and to participate in other professional development activities? (QC 10.31)
- Consider the engagement assignments you have received. Do you believe you have had the technical training and proficiency required to perform your assignments, considering the nature and extent of supervision provided? (QC 10.34)
- If assigned to an engagement in an industry you have not previously served, what would you do to prepare for that engagement? (QC 10.34)
- What can the firm do to better prepare staff for their assignments? (QC 10.34)

4. Human Resources (Required) — How are compensation and advancement decisions made? (If applicable) Are the criteria established by the firm consistently applied? (QC 10.32)

How do you advance in the firm?

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Consider the following:Suggested Inquiries

- ~~The quality of the evaluation process.~~
- ~~The equity and basis of engagement assignments within the firm.~~
- Ideas to make performance reviews more effective. How are personnel evaluations conducted at the firm? (If applicable) Is the firm's standardized form regularly used? **(QC 10.31)**
- When is the last time you received an evaluation of your performance? Was that evaluation effective in helping you understand what is required to advance in the firm? **(QC 10.31)**
- How would you improve the personnel evaluation process to make performance reviews more effective? **(QC 10.31)**
- How would you improve the compensation and advancement process? **(QC 10.32)**

5. Engagement ~~performance~~Performance (Required)—What are the most difficult aspects of performing an accounting and auditing engagement in the firm, and how would you improve them? **(QC 10.35)**
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Consider the following:Suggested Inquiries

- ~~How are these aspects supervised?~~
- ~~Are engagements planned effectively to reduce the difficulty of these aspects? How could engagements be better planned?~~
- How does executive management communicate their strategies to address these difficulties? Consider the audit programs you use. Do the procedures appearing in those programs differ from client to client based on their unique risks? **(QC 10.35)**
- How would you improve the consistency of the firm's approach to the form and content of audit working paper files? **(QC 10.35)**
- Are engagement planning meetings held prior to the commencement of work on an engagement? **(QC 10.35)**
- Do all personnel assigned to an engagement, including the engagement partner, attend planning meetings? **(QC 10.35)**
- How much time is devoted to planning meetings and what topics are normally discussed? **(QC 10.35)**
- How would you improve the planning process? **(QC 10.35)**
- How are engagements supervised? Is supervision sufficient and are supervisors readily available throughout performance of the engagement? **(QC 10.35)**
- How would you improve supervision on engagements? **(QC 10.35)**
- Who reviews your work and to what extent is it reviewed? Does the answer differ from

partner to partner or based on the nature of the engagement? **(QC 10.35)**

- Have you been involved in an engagement where the report was released before the work and reviews were completed? **(QC 10.35)**

6. Engagement performance (consultation)—How do you prepare for a new client or industry?

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Consider the following:

- ~~Did the staff perform engagements, industries or levels of service new to the firm during the year?~~
- ~~What training does the firm offer to teach staff to improve their consultation efforts?~~
- ~~What consultation resources are available and how available are firm experts for consultation?~~
- ~~What consultation requirements are in effect, and how are the requirements communicated?~~

6. Engagement ~~P~~performance **(Required)**—How are difficult client engagement situations typically resolved? **(QC 10.37)**

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Consider the following:**Suggested Inquiries**

- ~~Is the staff encouraged to communicate difficult situations?~~
- ~~What procedures are in place?~~
- ~~Do difficult situations seem to be resolved appropriately?~~
- Is executive management involved in the decision process? Under what circumstances would you consult with an individual who has relevant specialized expertise? If an issue arose on an engagement in the industry you work the most in, who would you consult with? **(QC 10.37a)**
- Were the firm’s criteria for consulting with outside parties met on any of your engagements? If yes, was a consultation performed and documented? **(QC 10.37a-.37d)**
- What types of resources do you have available for consultation when performing an engagement? **(QC 10.37b)**
- When is the last time you read an accounting or auditing standard, which one was it and



how did you access it? (QC 10.37b)

- How would you handle a situation where do you do not agree with your supervisor? (QC 10.47)
- What time limits does the firm comply with for completing the assembly of final engagement files? (QC 10.49)
- How does the firm maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation? (QC 10.50)

7. Monitoring (Required)—How does the firm and its staff collectively learn and improve from past engagement experiences, internal inspections, peer reviews and inspections by regulators? (QC 10.58)

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~~Consider the following:~~Suggested Inquiries

- ~~Is there a centralized firm effort to learn from past engagements? How is this effort implemented? How are the results of this effort summarized and communicated to the staff?~~
- ~~What consultation requirements are in effect, and how are the requirements monitored by the firm’s executives?~~
- ~~How does firm leadership make you aware of their policies for monitoring the firm’s system of quality control?~~
- How do you learn and improve from past engagement experiences, internal inspections, peer reviews, PCAOB inspections etc.? How would you improve the communication process firm’s processes for communicating findings from internal inspections, peer reviews, PCAOB inspections etc.? (QC 10.58)
- Are you encouraged to raise concerns about noncompliance with professional standards, regulatory and legal requirements, or the firm’s system of quality control? If yes, how? What would you do if you had concerns? (QC 10.60)  
If you had concerns about noncompliance with professional standards, regulatory and legal requirements or the firm’s system of quality control, what would you do?

8. General (Required)—What improvements would you implement at the firm if you were in charge?

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~~Consideration—Consider issues such as budgeting constraints vs. audit and accounting quality, ways to improve client service, and efficiency considerations.~~

Team Captain

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Date

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**Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program  
Exposure Draft**

**Why is this on the Agenda?**

The exposure draft in Agenda Item 1.3A is intended to improve increase consistency, efficiency and effectiveness in the performance and administration of peer reviews as well as expand the effect of important initiatives such as EAQ and Practice Monitoring of the Future. The exposure draft proposes to:

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

**Feedback Received**

Staff has conducted initial consultations with internal counsel. These materials reflect the results of those initial consultations and staff will continue to work closely with the legal team in developing supporting materials and guidance.

In addition, the Administrators Advisory Task Force and Technical Reviewers Advisory Task Force were consulted. Feedback has been incorporated.

**PRISM Impact**

The guidance in the exposure draft will have a PRISM impact. Staff has discussed this impact as well as implementation strategies with the AICPA PRISM team and the effective date below was proposed giving consideration to PRISM programming requirements. However, it is important to note that this effective date may be revised as additional information become available.

**AE Impact**

The recommended guidance will impact the way administering entities process peer reviews of non-member firms such that all enrolled firms will be processed uniformly from the background gathering phase through fair procedures. Appeals of hearing panel decisions would be handled through the AICPA but with slight variation based on whether or not AICPA members are involved. These fair procedures will be developed after introduction of the exposure draft.

**Communications Plan**

Issuance of the exposure draft will be communicated in a Reviewer Alert. The Exposure Draft will be posted to the Peer Review Home page on [www.aicpa.org](http://www.aicpa.org) during the exposure period.

**Manual Production Cycle (estimated)**

May 2017

**Effective Date**

Effective for enrollment on or after May 1, 2017.

**Board Consideration**

The Board is requested to approve the exposure draft in Agenda Item 1.3A.

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# **EXPOSURE DRAFT**

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

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

**May 19, 2016**

**Comments are requested by August 19, 2016**

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

**Comments should be received by August 19, 2016 and addressed to  
Lisa Joseph, Technical Manager – Peer Review  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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May 19, 2016

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

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

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

The exposure draft includes the following:

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

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

As of May 19, 2016, there is another outstanding exposure draft proposing changes to the *Standards* and Interpretations. The details of that exposure draft are available at [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#). A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

Anita M. Ford  
Chair, AICPA Peer Review Board

## AICPA Peer Review Board

### Peer Review Board Members 2015 – 2016

Anita M. Ford, Chair  
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Dawn Brenner\*  
William Calder\*  
James Clausell\*  
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Martin Shannon  
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Thomas W. Whittle III

*\*Member—Peer Review Board Standards Task Force*

### Non-Peer Review Board Standards Task Force Members 2015 – 2016

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Heather Trower

### AICPA Staff

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

Susan Lieberum  
Associate Director  
AICPA Peer Review Program

Lisa Joseph  
Technical Manager – Peer Review  
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 (Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes:

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

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

## Background

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

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

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

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

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

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

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

## **Enrollment in the AICPA Peer Review Program**

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

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

## **Expanding the Availability of Administration by the National Peer Review Committee**

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

## Clarification of Qualifications

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

## Explanation of Proposed Changes

### Revisions to *Standards*

The proposed changes include revisions to:

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

## Revisions to Interpretations

The proposal includes revisions to:

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

## Comment Period

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

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after August 19, 2016, for a period of one year.

## **Guide for Respondents**

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

Comments and responses should be sent to Lisa Joseph, Technical Manager – Peer Review, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by August 19, 2016. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by August 19, 2016.

## **Effective Date**

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

DRAFT

# Proposed Revisions

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

## Peer Review Standards

### Notice to Readers

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

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

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

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

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

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

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

## Overview

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

## Introduction and Scope

- .05 Firms (and individuals) (see interpretations) enrolled in the program have the responsibility to:
  - a. Design and comply with a system of quality control for its accounting and auditing practice that provides the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Statement on Quality Control Standards (SQCS) No. 8, A Firm's System of Quality Control (Redrafted) (AICPA, Professional Standards, QC sec. 10), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice.
  - b. Perform accounting and auditing engagements in accordance with applicable professional standards using competent personnel<sup>1</sup> (partners<sup>2</sup> and staff<sup>3</sup>).
  - c. Have independent peer reviews of their accounting and auditing practices (see interpretations). All enrolled firms ~~that an AICPA member is associated with~~ should undergo a peer review if the services performed and reports issued by the firm require a peer review.

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

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

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

- d. Engage a peer reviewer to perform the peer review in accordance with these standards, in a timely manner.
  - e. Take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken.
  - f. Provide written representations to describe matters significant to the peer review (see appendix B “Considerations and Illustrations of Firm Representations”).
  - g. Understand the AICPA Peer Review Board’s (board) guidance on resignations from the program (see interpretations).
  - h. Cooperate with the peer reviewer, administering entity, and the ~~AICPA Peer Review Board (board)~~ in all matters related to the peer review, that could impact the firm’s enrollment in the program, including paying administrative fees, arranging, scheduling, and completing the review and taking remedial, corrective actions and implementing other plans as needed (see interpretations).
- .06** An accounting and auditing practice for the purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS)<sup>4</sup>; Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under ~~Public Company Accounting Oversight Board (PCAOB)~~ standards (see interpretations). Engagements covered in the scope of the program are those included in the firm’s accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).
- .09** The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. On System Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. On Engagement Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified in engagements. These actions will be positive and remedial. Disciplinary actions (including those that can result in the termination of a firm’s enrollment in the program and the subsequent loss of membership, if applicable, in the AICPA and some state CPA societies by its partners<sup>5</sup> and employees) will be taken only for a failure to cooperate,

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

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



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

## **General Considerations**

### **Administrative Requirements**

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

### **Timing of Peer Reviews**

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

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

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

### **Organizing the System or Engagement Review Team**

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

## **Qualifying for Service as a Peer Reviewer**

### **System and Engagement Reviewers**

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

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

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

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

#### ***Other Peer Reviewer or Reviewing Firm Qualification Considerations***

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

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

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

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

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

## Planning and Performing Compliance Tests

### *Selection of Engagements*

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

## Administering Peer Reviews

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

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

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

## Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities

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

## Cooperating in a Peer Review

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

## Effective Date

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

## Appendix A

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

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

.207

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

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

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

### System Reviews

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

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

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

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

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

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

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

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



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

### Engagement Reviews

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

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

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

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

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

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

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

#### Quality Control Materials Reviews

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

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

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

21. Based on the planning procedures, the QCM reviewer looks at the provider's QCM, including the instructions, guidance, and methodology therein. The scope of a QCM review encompasses those materials which the provider elects to include in the QCM review report; QCM designed to aid user firms with tax or other non-attest services are outside of the scope of this type of review. The QCM reviewer will also look at the provider's system and will test elements including, but not limited to, requirements regarding the qualifications of authors and developers, procedures for ensuring that the QCM are current, procedures for reviewing the technical accuracy of the materials, and procedures for soliciting feedback from users. The extent of a provider's policies and procedures and the



manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the provider and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible. The objectives of obtaining an understanding of the provider's system and the materials forms the basis for the QCM reviewer's conclusions in the QCM review report.

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

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

## Peer Review Interpretations

### Notice to Readers

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

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

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

### Use of Standards

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

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

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

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

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

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

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

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

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

## Individual Enrollment in the Program

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

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

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

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

## Cooperating in a Peer Review

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

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

### AICPA Peer Review Board Resolution

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

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

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

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

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

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

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

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

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

### **AICPA Peer Review Board Resolution**

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

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

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

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

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



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

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

If a firm omits or misrepresents information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews* that results in a material departure<sup>9</sup> in the firm's most recently accepted peer review, acceptance of the peer review documents will be recalled. A hearing panel will determine whether the firm's enrollment in the AICPA Peer Review Program should be terminated. If the hearing panel determines that the firm's enrollment will not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision.

## Peer Reviews To Be Administered by the National Peer Review Committee

- 11-1** *Question*—Paragraphs .11, .128, and .161 of the standards note that peer reviews intended to meet the requirements of the program should be carried out in conformity with the standards under the supervision of a state CPA society, group of state CPA societies, the National PRC, or other board committee or entity (hereinafter, administering entity) approved by the board to administer peer reviews. Under what circumstances are peer reviews administered by the National PRC?

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

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

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

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

Firms that are not required to have their review administered by the National PRC may choose to do so. However, such firms are subject to the National PRC's administrative fee structure and should familiarize themselves with that structure prior to making such a decision. ~~This would also require that at least one owner of the firm be a member of the AICPA.~~



## Timing of Peer Reviews

13-1

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

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

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

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

## Independence, Integrity, and Objectivity

21-20

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

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

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

## Peer Review Documentation and Retention Policy

25-1

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

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

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

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

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

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

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

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

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

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

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

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

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

## Associations of CPA Firms and Association Formed Review Teams

26-1

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

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

A member firm of an association may conduct a peer review of another association-member firm enrolled in the program, provided that the association is not a network as defined by [Interpretation No. 26-2](#) and the association receives annual approval from the board. The National PRC administers this process on behalf of the board. The association must submit an AIF to the National PRC that must be approved by the board prior to any aspect of the review being planned, scheduled, or performed.

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

The approval of the AIF specifically relates to AICPA members of an association having the ability to perform peer reviews of other ~~firms~~AICPA members in the same association enrolled in the program. Furthermore,

- a. Annual approval of the AIF does allow, where the association is not a network and has answered the specific questions making such a request, the association the ability to assist its members in the formation of review teams (association formed review teams) or to provide technical assistance to such review teams.
- b. The reviewed firm and administering entity, not the association, is ultimately responsible for ensuring that its peer review is scheduled, performed, and completed in a timely manner.
- c. Annual approval of the AIF does not grant the association the authority to administer the program; therefore, the association is not deemed an approved administering entity.
- d. Approval of the AIF is not an endorsement of, approval of, or has any applicability to a separate peer review program that an association may conduct or administer for firms not enrolled in the program~~on AICPA members~~.
- e. If the association makes any representations (in brochures, directories, pamphlets, websites, or any marketing or selling materials regarding its member firms in obtaining engagements), in order for the AIF to be approved such representations must be objective and quantifiable. The purpose of this requirement is to mitigate the appearance of a lack of independence. The board does not prohibit an association from making representations that are not objective or quantifiable; however, associations that make the decision to do so should understand that its member firms will then be unable to peer review other association members.

For a member firm of an association to conduct peer reviews of another association-member firm enrolled in the program, in addition to the independence requirements related to network firms appearing in [Interpretation No. 26-2](#) and other peer review independence requirements, the association and its member firms must meet the following independence criteria:

- a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. For purposes of this requirement, *professional services* include accounting, tax, personal financial planning, litigation support, and professional services for which standards are promulgated by bodies designated by AICPA Council.
- b. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements unless the representations are

objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.

- c. Referral or participating work among member firms is arranged directly by the firms involved.

An association may voluntarily elect to have an independent QCM review of its system of quality control to develop and maintain QCM used by its member firms (see paragraphs .154–.205 of the standards). An association may wish to have such a review to enable its member firms that use the materials it develops to have more efficient peer reviews. Associations that elect to have this type of review should consult with AICPA program staff.

An association formed review team,

- a. requires that a majority of the review team members, including the team captain in a System Review, and all members in an Engagement Review, be from association member firms.
- b. performs peer reviews in accordance with these standards, interpretations, and other guidance and the peer review report is issued on the letterhead of the team captain or review captain's firm and signed in the name of the team captain or review captain's firm (not the association).

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

## Qualifying for Service as a Peer Reviewer

### 31b-1

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

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



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

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

31b-4

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

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

34-2

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

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

## Office and Engagement Selection in System Reviews

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

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

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

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

*Interpretation*—

### *Peer Review Committee Member*

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



### *Report Acceptance Body Member*

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

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

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

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

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

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

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

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

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

#### *Technical Reviewers*

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

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

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

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

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

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

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

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

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

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

## SEC Independence

### Why is this on the Agenda?

We have identified a risk that firms may not know that they are subject to SEC independence rules and may be issuing reports when they are not independent (making the reports invalid). Firms may be subject to SEC independence rules due to various regulatory requirements or due to the type of service provided.

Staff is working with the Broker-Dealer and Investment Companies expert panel to develop a table of some of the entities and engagements that are subject to SEC independence along with the regulatory entity that requires it to help firms identify engagements that they may not know are subject to SEC independence. This table will not be all inclusive but will give firms ideas of entities, engagements, and regulatory bodies that subject their auditors to SEC independence rules.

STF is proposing the following to address this risk:

- 1) Modify Interpretations 52-1, 59-1, and 59-2 to add the risks surrounding SEC independence, see Agenda Item 1.4A.
- 2) Add a question to the Team Captain Checklist to confirm that the Team Captain has discussed SEC independence rules and their possible implications with the firm, see Agenda Item 1.4B.
- 3) Add a question to the Engagement Profile within the General Audit Checklist and the Engagement Profile within the Public Company Accounting Oversight Board Audit Engagement Checklist for the firms to identify what independence standards are applicable to the engagement. This would include a link to the SEC independence rules and a link to the table developed by the expert panels and staff, see Agenda Item 1.4C and 1.4D.
- 4) Add two questions to the General Audit Checklist for the Team Captain to determine if the auditor complied with applicable independence and ethics requirements and specifically SEC independence requirements, see Agenda Item 1.4C.
- 5) Add a question to the Scheduling Form to identify what independence standards the firm performs engagements under and a link to the table that the expert panels and staff are developing within the Scheduling Form to help firms identify the applicable engagements during the scheduling process. See Agenda Item 1.4E for the scheduling form and 1.4F for an example of the table. Note this is the draft table and is still being finalized. The full table is fairly lengthy and the example is being provided to give the PRB an idea of the type of information that will be included in the table when final.
- 6) Match reviewer experience with the firm's engagement; if a firm is subject to SEC independence, they will have a reviewer that can understand the risks appropriately to perform a risk assessment and engagement selection. This means the engagements would be must cover engagements and Interpretation 63-3 would be modified to include them as such. This change to the interpretation and scheduling process are anticipated to be brought to the PRB for approval later in 2016.

### Feedback Received

N/A

### PRISM Impact

N/A.

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**AE Impact**

N/A

**Communications Plan**

The change will be communicated to peer reviewers in a Reviewer Alert.

**Manual Production Cycle (estimated)**

The changes to the interpretations and checklists would be in the May OPL update. The link to the expert panel table will be created once the expert panels have approved the table.

**Effective Date**

Effective for reviews commencing 6/1/16 or later.

**PRB Consideration**

- Discuss and approve Agenda Items 1.4A to 1.4E
- Discuss Agenda Item 1.4F and any concerns regarding future plans to revise Interpretation 63-3

## Understanding, Assessing, and Documenting Peer Review Risk Factors and Risk Assessment

### 52-1

*Question*—Paragraphs .46–.52 discuss peer review risk factors and risk assessment. What other guidance should be considered?


*Interpretation*—Reviewers must assess peer review risk and use a risk-based approach in the selection of engagements and offices for review. Reviewers should formalize the risk assessment before arriving on-site in the reviewed firm’s office and before selecting one or more engagements for review, otherwise they should expect ineffectiveness and, at the very least, inefficiency.

#### ***Inherent Risk Factors***

In assessing inherent risk factors, the reviewer should consider

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

#### ***Control Risk Factors***

Assessing control risk requires reviewers to evaluate the effectiveness of the reviewed firm’s quality control policies and procedures in preventing the performance of engagements that do not comply with professional standards. When assessing control risk, the review team should evaluate the reviewed firm’s quality control policies and procedures and discuss with the firm if it considered the guidance in AICPA Accounting and Auditing Practice Aid 

*Establishing and Maintaining A System of Quality Control for a CPA Firm’s Accounting and Auditing Practice*. The reviewer should evaluate whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures for each of the elements of quality control in the context of the firm’s overall control environment and the inherent risk embodied in its accounting and auditing practice.

The assessed levels of risk are the key considerations in deciding the number and types of engagements to review and, where necessary, offices to visit. Through the assessment of risk, the reviewer determines the coverage of the firm's accounting and auditing practice that will result in an acceptably low peer review risk. Engagements selected should provide a reasonable cross-section of the firm's accounting and auditing practice, with a greater emphasis on those engagements in the practice with higher assessed levels of peer review risk.

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

- The relationship of the firm's audit hours to total accounting and auditing hours
- Size of the firm's major engagement(s), relative to the firm's practice as a whole
- Initial engagements and their impact on the firm's practice
- The industries in which the firm's clients operate, especially the firm's industry concentrations
- The results of the prior peer review
- The results of any regulatory or governmental oversight or inspection procedures
- Owners' CPE policies and the firm's philosophy toward continuing education (Accumulate the necessary hours or maintain the needed skills and improve delivery of professional services.)
- Firm's policies and procedures to determine and monitor compliance with legal and regulatory requirements in accordance with SQCS No. 8, including but not limited to the following:
  - Firm and individual licenses to practice, in the state the practice unit is domiciled (main office is located) and in the state in which the individual primarily practices public accounting
  - Additional policies and procedures to comply with applicable out-of state firm and individual licensing requirements
- The firm's monitoring policies
- Adequacy of the firm's professional library
- Risk level of the engagements performed (For example, does the firm perform audits of employee benefit plans, entities subject to Circular A-133, entities subject to SEC complex independence requirements, and others under *Government Auditing Standards*, HUD-regulated entities, and others with high-risk features or complex accounting or auditing applications?)

- Have there been any major changes in the firm's structure or personnel since the prior peer review?

### ***Detection Risk***

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

See section 3100, *Supplemental Guidance*, for an example of an appropriately documented risk assessment in the SRM.

## **Office and Engagement Selection in System Reviews**

### **59-1**

*Question*—Paragraph .59 of the standards requires that engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk, and the guidance provides examples of factors to consider when assessing peer review risk at the engagement level. What are some other considerations?

*Interpretation*—A reasonable cross section of a firm's accounting and auditing practice, not only includes consideration of the specific industries that are required to be selected, but other industries that have a significant public interest. Industries that have a significant public interest are those that benefit the general welfare of the public, such as those that have recent regulatory and legislative developments (for example broker-dealers). Public interest industries will vary across firms and reviewers should consider the composition of a firm's accounting and auditing practice when determining if their risk assessment should address a public interest industry. The reviewer also needs to carefully consider the industries that the firm has identified in the category of "other audits" when determining whether to select such an engagement(s). A selection consisting solely of public interest industries would not necessarily represent a reasonable cross section. Other factors to consider in selecting a reasonable cross section may include the number of partners, the number of practice offices, and materiality thresholds of accounting and auditing hours.

The reviewer should explain and document in the *Summary Review Memorandum* key decisions that he or she made when he or she chose not to select any one or more of the following: a level of service, industries in which a significant public interest exists, and



industries in which the firm performs a significant number of engagements. This does not give authority to the reviewer to avoid selecting an engagement(s) by simply documenting the reason(s) why he or she did not select certain engagement(s). Therefore the reviewer should document important considerations regarding the engagement selection process.

A reasonable cross section does not always require that at least one engagement from every level of service provided by the firm be selected for review; however, it often may be appropriate in the circumstances. There is no percentage of coverage that necessarily ensures a reasonable cross section. Therefore, there is a relationship between a risk-based approach and a reasonable cross section when selecting engagements, and in that regard each peer review needs to be considered on a case-by-case basis.

The following are examples of risk considerations when addressing obtaining a reasonable cross section of the engagements, including engagements that must be selected and non-carrying broker-dealers. It is expected that the various types of engagements within an industry are specifically addressed in the risk assessment. Similar considerations should be made for industries that have a significant public interest, such as engagements subject to SEC independence rules.

- a. *Governmental—Government Auditing Standards*—Inclusion of a must select engagement should not supersede the reviewer's consideration of engagements and industries that have a significant public interest such as state and local governments, school districts and HUD engagements. For example, if for-profit HUD multifamily housing project audit engagements constitute a significant percentage of a firm's practice, one would expect the reviewer to select at least one such engagement for review. However, if the firm also performed an audit of an engagement subject to Circular A-133, such as a local government or not-for-profit organization, one such engagement must also be selected to perform an evaluation of the firm's compliance with Circular A-133. Peer reviewers should also consider audit firm experience such as how many governmental audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on GAS engagements. Further consideration should be given to communications from regulatory agencies.
- b. *Employee benefit plans*—For employee benefit plans under ERISA, the peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in limited versus full scope audits and in different types of benefit plans such as defined benefit, defined contribution, and voluntary health and welfare plans. If a firm has more than one of the preceding types of plans, the reviewer must consider the unique risks associated with that type of plan and document how these risks were addressed in the risk assessment. Peer reviewers should also consider audit firm experience such as how many ERISA audits the firm

performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on ERISA engagements. Further consideration should be given to communications from regulatory agencies.

- c. *Depository Institutions*—For FDICIA engagements, peer reviewers should take into consideration the amount of total assets held by the federally insured depository institution (less than \$500 million, more than \$500 million, more than \$1 billion). Peer reviewers should also consider audit firm experience such as how many FDICIA audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on FDICIA engagements. Further consideration should be given to the risks of the audited company such as the level of reporting the institution complies with (the holding company level or the bank subsidiary level and the regulatory issues associated with each), the balance of the lending portfolio (the industries and concentration percentage of the portfolio), any regulatory correspondence and examination results, capital ratios, financial institution management experience, economic environment and geographic location of the institution, number of branches, and experience and longevity of the board of directors and audit committee.
  
- d. *Broker-dealers*—The peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in carrying and non-carrying broker-dealers. Consideration of carrying broker-dealers should include carrying, clearing, and custodial broker-dealers. Consideration of non-carrying broker-dealers should include introducing broker-dealers. The peer reviewer should also consider other types of broker-dealers that fit the description of carrying and non-carrying broker-dealers in Interpretation No. 63-2. If a firm has more than one of the preceding types of audits, the reviewer must consider the unique risks associated with that type of audit and document how these risks were addressed in the risk assessment. For all broker-dealer engagements, the peer reviewer should consider audit firm experience such as how many broker-dealer audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on broker-dealer engagements. Further consideration should be given to communications from regulatory agencies. For non-carrying broker-dealers, the peer reviewer's risk assessment is expected to address the risks associated with those broker-dealers (for example, if the broker-dealer has some form of custody and control that may create risk and require additional internal controls).

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

## 59-2

*Question*—Paragraph .59 of the standards provides factors to consider when assessing peer review risk at the engagement level. What are some other examples of factors to consider?

*Interpretation*—Other examples of factors to consider when assessing peer review risk at the engagement level follow. This list is for illustrative purposes only, and does not include all possible inherent and control risk factors, nor is the peer reviewer required to consider every item on the list when assessing inherent and control risk:

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

- Engagements where departures from professional standards and failure to comply with the firm's quality control policies and procedures were noted in the preceding year's monitoring procedures
- Engagements in industries where the firm has experienced high instances of litigation, proceedings, or investigations
- Engagements affected by recently implemented revisions of the firm's quality control policies and procedures
- Engagements affected by newly effective professional standards
- Clients in industries in poor financial condition
- Clients in industries with complex or sophisticated transactions
- Engagements from merged-in practices
- Engagements subject to *Government Auditing Standards*
- Engagements subject to the Employee Retirement Income Security Act of 1974 (ERISA)
- Engagements subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA)
- Audits of securities and commodities broker-dealers
- Examinations of controls relevant to both a service organization and its user entities
- Engagements subject to SEC independence rules

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## PRP Section 4900

### *Team Captain Checklist*

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Reviewed Firm's Name

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Firm Number

Review Number

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**II. Planning the Review** (see AICPA Standards for Performing and Reporting on Peer Reviews (sec. 1000) (Standards) paragraph .106)

9. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed and to determine the nature and extent of the tests to be applied in the functional areas (see Standards paragraphs .53–.63):
- Tests should be performed at the practice office(s) visited, and should include the following:
    - Review highest risk areas on selected engagements, including accounting and auditing documentation, and reports
    - Review evidential material to determine whether the firm has complied with its policies and procedures for monitoring its system of quality control
    - Review other evidential matter as appropriate
  - Office selections—consider the following factors when assessing peer review risk at the office level:
    - Number, size, and geographic distribution of offices

- Degree of centralization of accounting and auditing practice control and supervision
  - Review team’s evaluation, if applicable, of the firm’s monitoring procedures
  - Recently merged or recently opened offices
  - Significance of industry concentrations and of specialty practice areas
  - Extent of non-audit services to audit clients
  - Significant clients’ fees to practice office and partners
- Engagement selections:
    - Attestation engagements with report dates during the year under review.
    - Reasonable cross selection of the reviewed firm’s accounting and auditing practice, with greater emphasis on those engagements with higher assessed levels of peer review risk.
    - Provide the reviewed firm with the initial selections no earlier than three weeks prior to the commencement of the peer review procedures at the related practice office or location. Request the firm to complete the profile sheets in the engagement checklists and to assemble the working papers and reports before the review begins.
    - At least one engagement from the initial selection to be reviewed should be provided to the firm once the review commences and not provided to the firm in ad-

vance. This engagement would ordinarily be an audit.

- If the firm performs any of the following types of engagements, then at least one of each of the following types that the firm performs is required to be included in the sample of engagements selected for review (Interpretation 63-1 [sec. 2000]):
  - Engagements subject to the Government Auditing Standards (the Yellow Book). (If the engagement selected is of an entity subject to GAS but not subject to the Single Audit Act/OMB Circular A-133 and the firm performs engagements of entities subject to OMB Circular A-133, at least one such engagement should also be selected for review. The review of this additional engagement may exclude those audit procedures strictly related to the audit of the financial statements. See Interpretation 63-1a.)
  - Audit engagements pursuant to the Employee Retirement Income Security Act (ERISA).
  - Federally insured depository institution engagements with more than \$500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act.
  - Audits of carrying broker-dealers. It is also expected that if a firm's audits of broker-dealers include only non-carrying broker-dealers, the team captain should be aware of and give special consideration to the risks associated with such broker-dealer audits in making engagement selections.
  - Examinations of service organizations (SOC 1 and SOC 2 engage-

ments).

- Confirm that the firm understands SEC independence implications and impacted engagements with the firm, as applicable. (For example, are there any regulatory bodies that require compliance with SEC independence rules, i.e. CFTC, or for investment advisers, specific states?)
- Confirm that the firm understands its responsibilities concerning engagement(s) or certain aspects of functional areas it wishes to exclude from selection. If in a rare situation the firm has legitimate reasons for the exclusion, confirm that it has requested and obtained a waiver for the exclusion(s) from the administering entity prior to the commencement of the review.

### **III. Performing the Review:**



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## PRP Section 20,400

### *General Audit Engagement Checklist*

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**Note:** This checklist has been updated, as applicable, with regard to the following publications:

- Statement on Auditing Standards No. 129, *Amendment to Statement on Auditing Standards No. 122 Section 920, Letters for Underwriters and Certain Other Requesting Parties, as Amended* (AICPA, *Professional Standards*, AU-C sec. 920)
- Statement on Standards for Accounting and Review Services No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*)
- Statement on Standards for Attestation Engagements No. 17, *Reporting on Compiled Prospective Financial Statements When the Practitioner's Independence Is Impaired* (AICPA, *Professional Standards*, AT sec. 301)
- FASB Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)*
- Statement of Position 13-2, *Performing Agreed-Upon Procedures Engagements That Address the Completeness, Mapping, Consistency, or Structure of XBRL-Formatted Information* (AICPA, *Professional Standards*, AUD sec. 55)
- Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control* (AICPA, *Professional Standards*, QC sec. 10)
- AICPA Code of Professional Conduct, revised effective December 15, 2014 (AICPA, *Professional Standards*)

#### **Explanation of References:**

ASC	FASB Accounting Standards Codification®
AU-C	Reference to section number for clarified SASs in AICPA <i>Professional Standards</i>
ET	Reference to section number in Code of Professional Conduct in AICPA <i>Professional Standards</i>
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles

QC	Reference to section number for SQCS in AICPA <i>Professional Standards</i>
SAS	AICPA Statements on Auditing Standards
AAG-ARR	AICPA Audit Guide <i>Assessing and Responding to Audit Risk in a Financial Statement Audit</i> (as of September 1, 2014)
AAG-SAM	AICPA Audit Guide <i>Audit Sampling</i> (as of March 1, 2014)

### Engagement Profile

Engagement Code No.	Office
Owner or Partner	Date of Financial Statements <sup>fn 1</sup>
Manager	Date of Report
Engagement Quality Control Reviewer	Date Report Released

This engagement involves reporting on

- |   |   |
|---|---|
| <input type="checkbox"/> financial statements (single entity).<br><input type="checkbox"/> consolidated financial statements.<br><input type="checkbox"/> combined financial statements.<br><input type="checkbox"/> subsidiary, division, or branch. | <input type="checkbox"/> special report.<br><input type="checkbox"/> significant deficiencies—material weaknesses.<br><input type="checkbox"/> other (explain). |
|---|---|

Is this engagement part of a group audit? Yes  No

Were other auditors involved in this engagement? Yes  No

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

Key data reported on by this office for this engagement:

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<sup>fn 1</sup> To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

Total assets	\$
Equity	_____
Net sales	\$
Net income	_____
	\$
	_____

Major lines of business:

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What independence standards apply for this client? (Check all that apply.)

- AICPA
- SEC<sup>fn 2</sup>
- PCAOB
- GAGAS
- Other (please list here): \_\_\_\_\_

What types of non-attest services will be performed for this client? (Check all that apply.)<sup>fn 32</sup>

- Activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations<sup>fn 43</sup> [ET sec. 1.295.010.06]
- Bookkeeping, payroll, and other disbursements [ET sec. 1.295.120]
- Tax preparation services [ET sec. 1.295.160]
- Other, which may include advisory services [ET sec. 1.295.105], appraisal, valuation, and actuarial services [ET sec. 1.295.110], benefit plan administration [ET sec. 1.295.115], business risk consulting [ET sec. 1.295.125], corporate finance consulting [ET sec. 1.295.130], executive or employee recruiting [ET sec. 1.295.135], forensic accounting [ET sec. 1.295.140], information systems design, implementation, or integration [ET sec. 1.295.145], internal audit [ET sec. 1.295.150], investment advisory or management [ET sec. 1.295.155]

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<sup>fn 2</sup> SEC independence rule 2-01 can be found at <https://www.law.cornell.edu/cfr/text/17/210.2-01> and the final action is located at <https://www.sec.gov/rules/final/33-7919.htm>.

<sup>fn 3</sup> To determine the applicability of all cross-referenced Code sections, consider their effective dates.

<sup>fn 43</sup> Effective for periods beginning after December 15, 2014, activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations are considered outside the scope of the attest engagement and, therefore, constitute a non-attest service.

For each non-attest service type previously identified, identify the following (attach additional sheets, if necessary):

- Specific non-attest service:

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- Individual in your firm responsible:

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- Name(s) and title of client personnel overseeing this service:

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- Please describe your assessment and factors leading to your satisfaction that the client personnel overseeing the service had sufficient skills, knowledge and experience to do so:

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Did any of the non-attest service(s) involve leading and directing the entity, including making significant decisions or assuming management responsibilities?

Examples of such services include, but are not limited to, the following: (Check all that apply.)

- Accepting responsibility for the preparation and fair presentation of the client's financial statements
- Having check signing authority or power of attorney, whether used or not
- Preparing invoices, receipts, or other documents that evidence the occurrence of a transaction (including data entry)
- Authorizing or executing transactions, or making decisions on behalf of the client
- Supervising, hiring, or terminating client employees
- Serving on the client's board of directors
- Serving as a client's stock transfer or escrow agent, registrar, general counsel, or equivalent
- Accepting responsibility for the management of a client's project
- Performing ongoing evaluations of the client's internal control as part of its monitoring activities
- Other:

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If any of the preceding boxes are checked, please provide a description:

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Personnel Continuity:	<i>Owner or Partner</i>	<i>Manager or Equivalent</i>
Number of years assigned to this engagement	_____	_____
Number of years in current position on this engagement	_____	_____

Audit hours on this engagement:

	<i>Total</i>	<i>Prior to Commencement of Field Work</i>	<i>During Field Work</i>	<i>After Completion of Field Work</i>
Owner or Partner	_____	_____	_____	_____
Engagement Quality Control Reviewer	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Senior or Other Professionals	_____	_____	_____	_____
Total Hours	_____	_____	_____	_____

**Describe the engagement team’s experience and training relevant to this engagement.**

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**Audit Engagement Risk Assessment**

This section of the engagement profile should be completed by the engagement partner or manager (or by the reviewer based on the interview of the engagement team).

- 1. Summarize key factors the engagement team considered with regard to the entity, its environment, fraud risk factors, entity level controls, and how this affected the audit approach.**

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- 2. What are the two to three areas with the highest risk of material misstatement in the financial statements?**

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Date Engagement Review Performed

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Reviewer Signature

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Date Checklist Reviewed by Team Captain

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Team Captain Signature

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**Relevant Ethical Requirements:**

<p><u>Did the auditor determine compliance with independence and ethics requirements? [ET sec. 1.200]</u></p>	<p>A107</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>_____</p>
<p><u>If the engagement is subject to SEC independence requirements, did the auditor properly evaluate his or her compliance with qualifications of an independent public accountant under Rule 2-01(e)(4)? [SEC Rule 2-01(e)(4)] Specifically, did the auditor ensure that he or she did not perform any typing and word processing services, including providing of a financial statement template (unless publicly available), among other noncompliance items?</u></p>	<p>A108</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>_____</p>
<p>If anything has been noted that may indicate a lack of independence, integrity, and objectivity, was the matter identified and appropriately resolved by the firm and its effects appropriately considered? [ET sec. 1.200 and 1.100] [QC sec. 10.21-.26]</p>	<p>A109<del>7</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>_____</p>
<p>Have engagement personnel (including leased and per diem employees) been appropriately advised of the need to observe applicable independence, integrity, and objectivity requirements concerning the client and any affiliates of the client? [QC sec. 10.21-.26] [ET sec. 1.224.010]</p>	<p>A110<del>8</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>_____</p>
<p>Were all fees, billed or unbilled, or note(s) receivable arising from such fees for any professional services provided more than one year prior to the date of the report paid prior to the issuance of the report for the current engagement? [ET sec. 1.230.010] [QC sec. 10.21-.26]</p>	<p>A111<del>09</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>_____</p>
<p>Has the auditor identified all non-attest services provided to the client?</p>	<p>A112<del>0</del></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>_____</p>

(Review the engagement profile and compare services listed to the identified services in the audit documentation.) [ET sec. 1.295]

Has the auditor established and documented in writing the auditor's understanding with the client? [ET sec. 1.295.040–.050] This includes

A11~~3~~<sup>4</sup>    \_\_\_\_\_

- objectives of the non-attest service engagement;
- non-attest services to be performed;
- client's acceptance of its responsibilities;
- the auditor's responsibilities; and
- any limitations of the non-attest service engagement.

For any non-attest services provided to the client, has the auditor determined before performing the service whether such a service would not impair independence? [ET sec. 1.295]

A11~~4~~<sup>2</sup>    \_\_\_\_\_

- The non-attest service is not specifically prohibited under ET sec. 1.295.030.02.
- The auditor does not assume management responsibilities for the client. [ET sec. 1.295.030]
- The auditor is satisfied that client management performs



all of the following functions in connection with the non-attest services (either through documentation or verbal discussions with the client) [ET sec. 1.295.040.01]:

- Assumes all management responsibilities
  - Oversees the services, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience
  - Evaluates the adequacy and results of the services performed
  - Accepts responsibility for the results of the services
- The auditor has complied with the requirements of the "Cumulative Effect on Independence When Providing Multiple Nonattest Services" [ET sec. 1.295.020]

	<p>If the auditor was not in compliance with the “Documentation Requirements When Providing Nonattest Services” (AICPA, <i>Professional Standards</i>, ET sec. 1.295.050), was the firm able to otherwise provide convincing evidence to the reviewer to conclude that an independence impairment does not exist?</p>	A11 <del>53</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
	<p>Does the auditor’s assessment of the skills, knowledge, and experience of client personnel overseeing non-attest services appear reasonable given indications within the engagement? Consider whether the auditor performed significant reconciliations and took into consideration, the extent and significance of adjustments and journal entries, the control deficiencies identified. [ET sec. 1.295.040]</p>	A11 <del>64</del>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

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## PRP Section 21,200

### *Public Company Accounting Oversight Board Audit Engagement Checklist*

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#### **Checklist for Review of Audit Engagements Conducted Under Public Company Accounting Oversight Board *Standards and Related Rules***

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**Note:** This checklist has been updated through PCAOB Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards); FASB Accounting Standards Update No. 13-2, *Definition of a Public Business Entity: An Amendment to the Master Glossary*; Statement of Position 13-2, *Performing Agreed-Upon Procedures Engagements That Address the Completeness, Mapping, Consistency, or Structure of XBRL-Formatted Data* (AICPA, *Professional Standards*, AUD sec. 55); and Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (AICPA, *Professional Standards*, QC sec. 10).

**Explanation of References:**

AS	Reference to the standards of the PCAOB
AT	Reference to section number for Statements on Standards for Attestation Engagements (SSAE) in <i>AICPA Professional Standards</i>
ASC	FASB <i>Accounting Standards Codification</i>
AU	Reference to section number for Statements on Auditing Standards (SASs) in <i>AICPA Professional Standards</i>
ET	Reference to section number in Code of Professional Conduct in <i>AICPA Professional Standards</i>
FASB	Financial Accounting Standards Board
INTERIM AU	Reference to the Interim Standards of <i>PCAOB Standards and Related Rules</i>
QC	Reference to section number for SQCS in <i>AICPA Professional Standards</i>
SAS	AICPA Statements on Auditing Standards
SOP	AICPA Statement of Position (included in <i>AICPA Professional Standards</i> )

**Engagement Profile**

Engagement Code No.	Office
_____	_____
Owner or Partner	Date of Financial Statements <sup>fn 1</sup>
_____	_____
Manager	Date of Report
_____	_____
Engagement Quality Control Reviewer	Date Report Released
_____	_____

<sup>fn 1</sup> To determine the applicability of all cross-referenced pronouncements, consider their effective dates.

This engagement involves reporting on the following

- Financial statements (single entity)
- Consolidated financial statements
- Combined financial statements
- Subsidiary, division, or branch
- Special report
- Significant deficiencies—material weaknesses
- Other (explain)

What independence standards apply for this client? (Check all that apply.)

AICPA

SEC<sup>fn2</sup>

PCAOB

GAGAS

Other (please list here): \_\_\_\_\_

Is this engagement part of a group audit? Yes  No

Were other auditors involved in this engagement? Yes  No

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

Key data reported on by this office for this engagement:

Total assets	\$
Equity	_____
Net sales	\$
Net income	_____
	\$
	_____

Major lines of business:

<sup>fn2</sup> SEC independence rule 2-01 can be found at <https://www.law.cornell.edu/cfr/text/17/210.2-01> and the final action is located at <https://www.sec.gov/rules/final/33-7919.htm>.

List any non-attest services [ET 101.05] performed for the client during the period of the professional engagement or the period covered by the financial statements:

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Personnel Continuity:		<i>Owner or Partner</i>	<i>Manager or Equivalent</i>
Number of years assigned to this engagement		_____	_____
Number of years in current position on the engagement		_____	_____
Audit hours on this engagement:			

	<i>Total</i>	<i>Prior to Commencement of Field Work</i>	<i>During Field Work</i>	<i>After Completion of Field Work</i>
Owner or Partner	_____	_____	_____	_____
Engagement Quality Control Reviewer	_____	_____	_____	_____
Manager (or Equivalent)	_____	_____	_____	_____
Senior or Other Professionals	_____	_____	_____	_____
Total Hours	_____	_____	_____	_____

**Describe the engagement team’s experience and training relevant to this engagement.**

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**AUDIT ENGAGEMENT RISK ASSESSMENT**

This section of the engagement profile should be completed by the engagement partner or manager (or by the reviewer based on the interview of the engagement team).

**1. Summarize key factors the engagement team considered with regard to the entity, its environment, fraud risk factors, entity level controls, and how this affected the audit approach.**

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**2. What are the two to three areas with the highest risk of material misstatement in the financial statements?**

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Date Engagement Review Performed

Date Checklist Reviewed by Team Captain

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Reviewer Signature

Team Captain Signature

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**Scheduling Form**

10) Does your firm perform, or does it expect to perform, engagements under the following standards that are not subject to permanent inspection by the PCAOB<sup>i</sup>:

With periods ending during the peer review year?	Yes	No
<b>Statements on Auditing Standards (SASs)</b>		
Engagements	<input type="checkbox"/>	<input type="checkbox"/>
<b>International Standards</b>		
International Standards on Auditing, Assurance Engagements and related Services (ISAs), or any other standards issued by the International Auditing and Assurance Standards Board (IAASB)	<input type="checkbox"/>	<input type="checkbox"/>
Any other international standards on audit, assurance or related services	<input type="checkbox"/>	<input type="checkbox"/>
Any international accounting or reporting standards (except for International Financial Reporting Standards-IFRS)	<input type="checkbox"/>	<input type="checkbox"/>
<b>Standards of the Public Company Accounting Oversight Board (US)</b>		
PCAOB Auditing Standards	<input type="checkbox"/>	<input type="checkbox"/>
PCAOB Attestation Standards	<input type="checkbox"/>	<input type="checkbox"/>
<b>Statements on Standards for Accounting and Review Services (SSARS)</b>		
Reviews of financial statements	<input type="checkbox"/>	<input type="checkbox"/>
Compilations of financial statements with disclosures <sup>ii</sup>	<input type="checkbox"/>	<input type="checkbox"/>
Compilations of financial statements that omit substantially all disclosures <sup>iii</sup>	<input type="checkbox"/>	<input type="checkbox"/>
Preparation of financial statements with disclosures <sup>iv</sup>	<input type="checkbox"/>	<input type="checkbox"/>
Preparation of financial statements that omit substantially all disclosures <sup>v</sup>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Statements on Standards for Attestation Engagements (SSAEs)</b>		
<u>With report dates during the peer review year?</u>		
Examinations of prospective financial statements	<input type="checkbox"/>	<input type="checkbox"/>
Compilations of prospective financial statements	<input type="checkbox"/>	<input type="checkbox"/>
Agreed-upon procedures of prospective financial statements	<input type="checkbox"/>	<input type="checkbox"/>
<u>With periods ending during the peer review year? <sup>vi</sup></u>		
Examinations of written assertions (Including SOC 1 and 2 engagements)	<input type="checkbox"/>	<input type="checkbox"/>
Reviews of written assertions	<input type="checkbox"/>	<input type="checkbox"/>
Other agreed-upon procedures	<input type="checkbox"/>	<input type="checkbox"/>
<b>Other</b>		
Any types of engagements referenced above that would subject the accountant to SEC independence rules	<input type="checkbox"/>	<input type="checkbox"/>

11) What independence standards apply for engagements that you were perform? (Check all that apply.)

AICPA

- SEC<sup>vii</sup>
- PCAOB
- GAGAS
- Other (please list here): \_\_\_\_\_

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<sup>i</sup> **Subject to Permanent Inspection by the PCAOB:** See Interpretation 6-9 of the Standards “Engagements Subject to PCAOB Inspection” which can be found on the AICPA Peer Review Program website at: [aicpa.org/prguidance](http://aicpa.org/prguidance).

<sup>ii</sup> **Compilations of Financial Statements with Disclosures:** Includes “management use only” compilation engagements performed under SSARS 19. . SSARS 21, effective for reviews, compilations, and preparation of financial statements for periods ending on or after December 15, 2015, will supersede all existing AR sections in AICPA *Professional Standards* with the exception of AR section 120, *Compilation of Pro Forma Financial Information*. SSARS 21 does not contain any provision that would allow an accountant to perform a compilation and not issue a compilation report.

<sup>iii</sup> **Compilations of Financial Statements That Omit Substantially All Disclosures:** Includes “management use only” compilation engagements performed under SSARS 19. SSARS 21, effective for reviews, compilations and preparation of financial statements for periods ending on or after December 15, 2015, will supersede all existing AR sections in AICPA *Professional Standards* with the exception of AR section 120, *Compilation of Pro Forma Financial Information*. SSARS 21 does not contain any provision that would allow an accountant to perform a compilation and not issue a compilation report.

<sup>iv</sup> **Preparation of Financial Statements with Disclosures:** Includes both preparation engagements with a disclaimer report and without a disclaimer report.

<sup>v</sup> **Preparation of Financial Statements That Omit Substantially All Disclosures:** Includes both preparation engagements with a disclaimer report and without a disclaimer report.

<sup>vi</sup> **Examinations and Review of Written Assertions and AUP:** Service Organization Control (SOC) engagements should be included in these categories, as applicable. SOC 1 and 2 engagements should be included as examinations of written assertions. SOC 3 engagements should be included in examinations of written assertions, reviews of written assertions or other agreed-upon procedures depending upon the nature of the engagement.

<sup>vii</sup> **SEC Independence Rules:** SEC independence rule 2-01 can be found at <https://www.law.cornell.edu/cfr/text/17/210.2-01> and the final action is located at <https://www.sec.gov/rules/final/33-7919.htm>.

Known Entities Where SEC Independence Rules Apply – DRAFT TABLE - EXAMPLE

Entity Type	Nature of Services Performed and Report Issued	Regulatory Body with which the Entity is Registered	Auditing Standards	Independence Standards	PCAOB permanent inspection	In scope of Peer Review	Must Select	Other Information
Public Issuers – Form 10-K	Audit	SEC	PCAOB	SEC & PCAOB	Yes	No	N/A	
Form 11-K Filers	Audit	SEC	PCAOB	SEC & PCAOB	Yes	No	N/A	SEC rules apply

## Revisions to the Document Retention Guidance

### Why is this on the Agenda?

The AICPA Assurance Research Advisory Group (ARAG) is seeking to drive research relative to assurance issues that are most pressing to the profession by requesting and funding research proposals from academia. In addition to providing funding, the AICPA is seeking to provide anonymized peer review data to research teams who submit an approved proposal.

As such, Staff has become aware of the possibility that certain anonymized peer review data from a firm's most recent or upcoming review will be requested for use by parties outside of the Institute. To address confidentiality concerns, it is anticipated that firm consent for this research will be obtained either directly or through the use of opt-in or opt-out language, in accordance with applicable state regulations, in certain peer review documents (e.g. the Background form). The opt-in/opt-out language will include links to further details regarding ARAG and the nature of the data that may be shared in connection with the consent request.

However, certain data that is expected to be requested is subject to our documentation retention requirements outlined in Interpretation No. 25-1. The proposed Interpretation shown in Agenda Item 1.5A is intended to allow the AICPA to retain relevant peer review information in connection with this initiative and any other internal initiative intended to improve the quality of accounting and auditing services provided by CPA firms. Such initiatives may include research that requires certain data derived from peer review documentation to be shared with parties outside of the AICPA. Additionally, the interpretation is designed to allow the AICPA to retain relevant peer review information if such information is needed to comply with peer review standards. The proposed interpretation will allow the AICPA to retain anonymized peer review data in order to meet these objectives.

### Feedback Received

Staff has conducted consultations with internal counsel. These materials reflect the results of those consultations.

### PRISM Impact

The consent referenced within the proposed Interpretation potentially could impact PRISM (or its replacement) through incorporation of a question or other mechanism that would retain a firm's response to the consent request. Staff will work with the AICPA PRISM team facilitate implementation of necessary updates to the system.

### AE Impact

N/A

### Communications Plan

Issuance of the new interpretation will be communicated in a Reviewer Alert shortly after approval.

### Manual Production Cycle (estimated)

May 2016

### Effective Date

Upon board approval.

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**Board Consideration**

The Board is requested to discuss and approve the proposed Interpretation in Agenda Item 1.5A.

**Peer Review Program Manual Section 2000 –  
New Proposed Interpretation under Peer Review Documentation and Retention Policy**

Interpretation 25-3

*Question* – Paragraph .25 of the standards notes that all peer review documentation should not be retained for an extended period of time after the peer review’s completion, with the exception of certain documents that are maintained until the subsequent peer review’s acceptance and completion. May the AICPA retain any peer review documentation (or data derived from that documentation) beyond the relevant documentation retention requirements outlined in Interpretation 25-1 (retention requirements)? If so, for what purpose?

*Interpretation* – Yes, certain peer review documentation may be retained beyond the retention requirements if such documentation is needed to comply with peer review standards and guidance. For example, the peer review report rating may be retained in order to track the number of consecutive non-pass peer review reports a firm has received.

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

## Reviewer Performance Update

### Why is this on the Agenda?

Enhancing the quality of peer reviewers is part of the AICPA Six-point Plan for enhancing audit quality. In 2015, the Peer Review Board (PRB) approved revisions to *Standards for Performing and Reporting on Peer Reviews* (Standards) and interpretations relative to peer reviewer performance and qualifications. Many recent standards and guidance changes were made to increase accountability and drive positive changes. Based on feedback from reviewers and firms covered in the pilot program of the Enhanced Oversight initiative, some of the recent guidance changes may have, in certain circumstances, resulted in consequences perceived to be overly harsh. This agenda item contains two proposed changes to the guidance intended to strike a better balance of education and remediation in the process.

### **PART 1**

#### Background

The guidance regarding reviewer performance is intended to identify and address those reviewers who have performance issues. To consistently evaluate reviewers, the PRB developed a list of significant reviewer performance deficiencies and reviewer performance deficiencies. Although the two terms are similar, they have very different outcomes. Both performance deficiencies require the issuance of a reviewer feedback form. However, when significant reviewer performance deficiencies are identified the current standards indicate:

If significant reviewer performance deficiencies are noted, then the board or committee should either require the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future (standards sec. 1000 [par. .148](#)).

#### Significant Reviewer Performance Deficiencies

The PRB identified significant reviewer performance deficiencies (significant deficiencies) as:

1. Engagement Selection and Review: The reviewer did not
  - appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects (non-conforming) prior to technical review, oversight or RAB consideration
2. Assessment and Disposition of Matters: The reviewer did not
  - appropriately aggregate or evaluate matters noted on the review, such that the committee determined a deficiency was present when the reviewer did not elevate the matter beyond an MFC, or the committee determined a significant deficiency was present when the reviewer did not elevate the matter beyond an FFC.

When significant deficiencies are noted, the board or committee should

- Issue a feedback form documenting the deficiency, and
- Issue either a performance deficiency letter requiring the reviewer complete one or more corrective actions or recommend to the board that the reviewer be

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prohibited from performing peer reviews in the future.

The PRB believes this guidance is necessary to establish when a reviewer (1) lacks the competency and experience necessary to assess whether an engagement has been performed in accordance with professional standards in all material respects and (2) lacks comprehensive knowledge of the Standards *and* is unable to correctly conclude on the results of the peer review.

Issue to be addressed by PRB

The first significant deficiency listed above indicates that if the committee determines the reviewer should have determined an engagement to be non-conforming, the committee is required to issue a feedback form and possibly a performance deficiency letter with a corrective action or recommend that the reviewer be restricted from performing peer reviews in the future (at least three years). Staff has received feedback that this guidance, taken literally, is too harsh resulting in corrective actions or removal of good performing reviewers that have a strong, solid performance record.

Example: A peer reviewer has identified the significant issues, had comprehensive and complete MFCs on those issues, and concluded the engagement as conforming to professional standards in all material respects which was thoroughly documented in the Summary Review Memorandum (SRM). In this situation, the reviewer's documentation indicates the reviewer had the required knowledge and experience to review that engagement but, in their professional judgment, did not deem the engagement non-conforming.

However, during the review acceptance process, the Report Acceptance Body (RAB) determined that, based on the MFCs, the engagement should be classified as non-conforming. Under the current guidance, this is a significant deficiency. The reviewer, who performed the review in accordance with the guidance and had the requisite industry experience, would receive a feedback form for a significant reviewer performance deficiency and possibly a deficiency letter with a corrective action.

The strict interpretation of this guidance was not the intent of the PRB. The Standards indicate that performing and reporting on a peer review requires the exercise of professional judgment by peers. Allowing peer reviewers professional judgment is an important part of the peer review process. The reviewer performance guidance should allow reviewers to make decisions that are based on their professional judgment and supported in comprehensive documentation that indicates a thorough knowledge of the issues and reasons for conclusions.

Proposed Solutions

The PRB is clarifying its intent to allow professional judgment, in certain situations, to be a factor in determining a significant deficiency. Below are three proposed changes:

1. The first revision provides clarification that a significant deficiency exists when the reviewer did not appropriately conclude that the engagement was non-conforming *and* the reviewer did not demonstrate sufficient knowledge and expertise required to review that engagement thus they were not able to identify the issues related to that engagement.
2. To assist in the determining if the reviewer had the required level of knowledge and experience, committee members should rely on the guidance in Interpretation .31d-1. Interpretation .31d-1 indicates that the reviewer may be called upon to justify why he or she should be permitted to review engagements in a specific industry. The committee



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should discuss with the reviewer such things as the reviewers recent involvement (within their own firm, when applicable) in engagements in the specific industry, the number of the industry-specific engagements the reviewer has overall responsibility, when, where and what types of CPE has been taken, and any other questions relevant to the situation. Based on this information and through discussions with the reviewer, the committee should be able to determine if the reviewer had sufficient knowledge and experience related to that engagement.

The PRB proposes the following revision to the significant reviewer performance deficiency:

Engagement Selection and Review: The reviewer did not

- appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects and did not demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight or RAB consideration.
3. The second revision below is not a significant reviewer performance deficiency but would be a reviewer performance deficiency. In the example where the reviewer was able to demonstrate considerations of key areas of the engagement, identify significant issues, and thoroughly documented their conclusions, the committee should conclude that the reviewer demonstrated sufficient knowledge and experience to review the engagement. However, if the committee determined the engagement was non-conforming, the reviewer should still be provided feedback.

The additional reviewer performance deficiency below will be added to the feedback form:

Reviewer identified all significant issues in an engagement but did not appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight or RAB consideration.

Attachment A, Reviewer Feedback Form, reflects the above proposed changes to the feedback form.

## **PART 2**

### Issuance of Performance Deficiency Letters

#### Background

The current guidance in the Report Acceptance Body Handbook indicates:

If significant reviewer performance deficiencies are noted, then the board or committee should either require the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future.

#### Issue to be Addressed by PRB

The guidance does not clearly indicate when a deficiency letter or request to prohibit a reviewer should be issued.

#### Proposed Solution

The PRB is proposing the following guidance in the Report Acceptance Body Handbook

If a pattern of reviewer performance deficiencies by a particular reviewer is noted, then the board or committee should issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future.

If more than one significant reviewer performance deficiency ~~ies are~~ is noted (regardless of whether a pattern is present), ~~then~~ the board or committee should ~~issue a feedback form documenting the deficiencies. The board or committee should also~~ either issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future (standards sec. 1000 [par. .148](#)). However, if the reviewer's performance on a review is considered egregious, the board or committee may require the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future based on a single instance of a significant reviewer performance deficiency.

Corresponding changes to the Report Acceptance Body Handbook, Chapter 8, *Reviewer Qualifications, Responsibilities, and Performance*, are presented in Attachment B.

### **Feedback Received**

As stated above, staff has received feedback that the original guidance, taken literally, is too harsh resulting in corrective actions or removal of good performing reviewers that have a strong, solid performance record.

### **PRISM Impact**

Impact to programming due to changes on the Feedback Form.

### **AE Impact**

None

### **Communications Plan**

Changes to this guidance will be included in reviewer training courses and an alert will be issued.

### **Manual Production Cycle (estimated)**

May 2016

### **Effective Date**

Immediately upon board approval for reviews commencing on or after June 1, 2016.

### **Task Force Consideration**

1. Is this guidance in line with the PRBs intent with the original guidance changes?
2. Does this guidance allow professional judgment and continue to allow the committee and board to identify, remediate or remove poor performing reviewers?

**REVIEWER FEEDBACK FORM**

(updated ~~January 4~~ For Reviews Commencing on or After June 1, 2016)

To: \_\_\_\_\_  
 Member #: \_\_\_\_\_  
 From: \_\_\_\_\_ Peer Review Committee

The purpose of the reviewer feedback form is to document specific areas of needed improvement, so that similar performance deficiencies are not made on reviews performed in the future. At its most recent meeting, the \_\_\_\_\_ Peer Review Committee considered and acted on the peer review referenced in the attached committee decision letter and has the following comments (noted by ☒) for your consideration.

<b>I. SIGNIFICANT REVIEWER PERFORMANCE DEFICIENCIES</b>	
<b>A. Engagement Selection and Review</b>	
<input type="checkbox"/>	1. Reviewer did not appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight or RAB consideration <u>and did not demonstrate sufficient knowledge and experience required to review the engagement and identify issues</u> prior to technical review, oversight or RAB consideration. (System – Std. Par. .66–.67; Engagement – Std. Par. .109)
<b>B. Assessment and Disposition of Matters</b>	
<input type="checkbox"/>	1. Reviewer did not appropriately aggregate or evaluate matters noted on the review (System – Std. Par. .75–.86; Engagement – Std. Par. .111–.115), such that the committee determined a deficiency was present when the reviewer did not elevate the matter beyond an MFC, or the committee determined a significant deficiency was present when the reviewer did not elevate the matter beyond an FFC.
<b>II. REVIEWER PERFORMANCE DEFICIENCIES</b>	
<b>A. Reviewer Cooperation and Qualifications</b>	
<input type="checkbox"/>	1. Reviewer did not perform in a timely, professional manner resulting in suspension of the reviewer’s ability to schedule and/or perform reviews. (Std. Par. .147)
<input type="checkbox"/>	2. Reviewer did not maintain the required reviewer qualifications resulting in suspension of the reviewer’s ability to schedule and/or perform reviews. (Std. Par. .31 and .34)
<b>B. Planning</b>	
<input type="checkbox"/>	1. Reviewer did not obtain team member approval timely after determination that the review team or reviewer did not possess the proper qualifications or adequate experience to perform the review of an engagement in a particular practice area or industry (Std. Par. .30)
<input type="checkbox"/>	2. Reviewer did not obtain a sufficient understanding of the firm’s accounting and auditing practice or system of quality control when performing a peer review resulting in the need to perform additional work after the review working papers were submitted to the administering entity (Std. Par. .41-.45)
<input type="checkbox"/>	3. Reviewer did not adequately document a comprehensive risk assessment for the System Review and additional clarification was necessary after peer review working papers were submitted to the administering entity (Std. Par. .49-.50)
<b>C. Engagement Selection and Review</b>	

<input type="checkbox"/>	1. Reviewer did not select a sufficient or appropriate scope of engagements for review (System- Std. Par. .53-.63; Engagement- Std. Par. .104-.109)
<input type="checkbox"/>	2. Reviewer did not properly select the “surprise” engagement or did not provide sufficient documentation of reasoning for selection (Std. Par. . 61)
<input type="checkbox"/>	<u>3. Reviewer identified all significant issues in an engagement but did not appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight or RAB consideration. (System – Std. Par. .66–.67; Engagement – Std. Par. .109)</u>
<b>D. Assessment and Disposition of Matters</b>	
<input type="checkbox"/>	1. Reviewer did not identify matters, findings, deficiencies, or significant deficiencies appropriately (System- Std. Par. 70; Engagement- Std. Par. .110)
<input type="checkbox"/>	2. Reviewer did not appropriately dispose of matters noted on the review or properly complete the DMFC Form (System- Std. Par. 72-74; Engagement- Std. Par. .112-114)
<input type="checkbox"/>	3. Reviewer did not properly consider or document the need to expand scope to other engagements or functional areas (System- Std. Par. 68 and Interpretation 84-1)
<input type="checkbox"/>	4. Reviewer did not appropriately aggregate and evaluate matters noted on the review (System- Std. Par. .75-.86)
<b>E. Completion of FFC Forms</b>	
<input type="checkbox"/>	1. Reviewer did not write findings systemically in a System Review (Std. Par. .83)
<input type="checkbox"/>	2. Reviewer did not sufficiently complete or write FFC forms or evaluate the firm’s response (System- section 4960; Engagement- section 6600)
<input type="checkbox"/>	3. Reviewer did not properly identify a repeat finding (Interpretation 83-2)
<input type="checkbox"/>	4. Reviewer did not provide proper recommendations to the firm to sufficiently address the finding (System- section 4960; Engagement- section 6600)
<b>F. Reporting</b>	
<input type="checkbox"/>	1. Reviewer did not properly identify that a deficiency was a repeat (System- Std. Par. .96(n); Engagement- Std. Par. 122(n))
<input type="checkbox"/>	2. Reviewer did not provide sufficient peer review working papers/documentation to support the report rating (System- Std. Par. .87-.90; Engagement- Std. Par. .117-.119)
<input type="checkbox"/>	3. Reviewer did not systemically write deficiencies in a System Review report and a revision was required (System- Std. Par. .96m)
<input type="checkbox"/>	4. Reviewer did not “close the loop” when reporting on deficiencies in a System Review (section 4200.54g)
<input type="checkbox"/>	5. Reviewer did not provide proper recommendations to the firm to sufficiently address the deficiencies noted in the peer review report (System- Std. Par. .96m; Engagement- Std. Par. .122m)
<input type="checkbox"/>	6. Reviewer did not present the report in standard form in accordance with peer review guidance or significant revisions to the report were needed (System- Std. Par. .96; Engagement- Std. Par. .122)

<input type="checkbox"/>	7. Reviewer did not properly review, evaluate and comment on the reviewed firm's letter of response when the reviewer received the letter prior to its submission to the administering entity (System- Std. Par. .97; Engagement- Std. Par. .123)
<b>G. Completion and Submission of Workpapers</b>	
<input type="checkbox"/>	1. Reviewer did not complete peer review documentation comprehensively, or the documentation that was submitted required revisions (Std. Par. .24)
<input type="checkbox"/>	2. Reviewer did not properly report in engagement statistics or did not properly discuss in other peer review practice aids when it was determined that the engagement was not performed or reported on in conformity with applicable professional standards in all material respects (Interpretation 66-1)
<b>H. Other</b>	
<input type="checkbox"/>	1. Other departures from Standards for Performing and Reporting on Peer Reviews or other authoritative program guidance. See explanation below.

Recommendations to avoid similar performance deficiencies on reviews performed in the future  
\_\_\_\_\_

The committee appreciates your involvement in the process. If you would like to discuss the above comments, please feel free to call or email \_\_\_\_\_. If you submitted other reviews with the same deficiency, please contact the administering entity. You will be given the opportunity to make the appropriate corrections on those reviews prior to the technical review.

Committee Member: \_\_\_\_\_  
Date: \_\_\_\_\_

cc:

## Chapter 8

### IV. Reviewer Performance Deficiencies

#### A. Deficiencies in Reviewer Performance

During the review acceptance process, the committee evaluates the reviewer's performance. In addition to the committee's evaluation, the board and staff may also evaluate and monitor the reviewer's performance through other means, such as oversight. The committee should determine the severity of any identified reviewer performance deficiencies.

If a pattern of reviewer performance deficiencies by a particular reviewer is noted, then the board or committee should issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future.

If more than one significant reviewer performance deficiencies are is noted (regardless of whether a pattern is present), then the board or committee should either issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future (standards sec. 1000 par. .148). However, if the reviewer's performance on a review is considered egregious, the board or committee may require the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future based on a single instance of a significant reviewer performance deficiency.

The following sections outline various degrees of reviewer performance deficiencies and the guidance for handling such matters.

#### B. Reviewer Feedback Forms

Reviewer feedback forms document reviewer performance deficiencies on individual reviews. Committees should use reviewer feedback forms when performance deficiencies are noted during the review acceptance process or through other means such as oversight. Reviewer feedback forms should also be issued when a reviewer fails to perform in a timely, professional manner or maintain required reviewer qualifications resulting in suspension.

The purpose of issuing a reviewer feedback form is to document specific areas of needed improvement. Reviewer feedback forms also help the AE and staff

monitor the performance of the reviewer, including whether there is a pattern of reviewer performance deficiencies. Deficiencies noted on reviewer feedback forms should be substantiated by peer review guidance. Completion of the explanation section of the reviewer feedback form or other written correspondence with the reviewer (which is retained with the reviewer feedback form) is required to ensure that the reviewer understands the reviewer performance deficiencies.

The reviewer feedback form is designed to give reviewers feedback directly from the committee or board. The reviewer feedback form should be signed (electronic or typed signature is acceptable) and dated by a member of the committee or board and may be remitted to the reviewer electronically or via mail. Technical reviewers and staff may make recommendations for feedback to the committee or board but should not issue or sign reviewer feedback forms.

If the reviewer performs reviews for other AEs, it is important that feedback be shared with those AEs. As such, the AICPA has developed a web-based platform to house all feedback forms issued by committees or the board. The AE issuing the feedback is required to upload all reviewer feedback forms to this platform within 30 days of issuance. This procedure enhances monitoring of reviewers performance. Each AE should have procedures in place to allow for periodic monitoring of reviewer feedback forms to determine whether there is a pattern of deficiencies in a reviewer's performance.

#### *Significant Reviewer Performance Deficiencies*

The following is a listing of significant reviewer performance deficiencies that would be documented on a reviewer feedback form:

- Engagement Selection and Review: The reviewer did not
  - appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight or RAB consideration and did not demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight or RAB consideration. (standards sec. 1000 System Reviews [par. .66-.67](#); Engagement Reviews [par. .109](#))
- Assessment and Disposition of Matters: The reviewer did not
  - appropriately aggregate or evaluate matters noted on the review (standards sec. 1000 System Reviews [par. .75-.86](#); Engagement Reviews [par. .111-.115](#)), such that the committee determined a deficiency was present when the reviewer did not elevate the matter beyond an MFC, or the committee determined a significant



deficiency was present when the reviewer did not elevate the matter beyond an FFC.

### *Reviewer Performance Deficiencies*

The following is a listing of reviewer performance deficiencies (not all inclusive) that would be documented on a reviewer feedback form:

- Reviewer Cooperation and Qualifications: The reviewer did not
  - perform in a timely, professional manner resulting in suspension of the reviewer’s ability to schedule and/or perform reviews. (standards sec. 1000 [par. .147](#))
  - maintain the required reviewer qualifications resulting in suspension of the reviewer’s ability to schedule and/or perform reviews. (standards sec. 1000 [par. .31](#) and [.34](#))
- Planning: The reviewer did not
  - obtain team member approval timely after determination that the review team or reviewer did not possess the proper qualifications or adequate experience to perform the review of an engagement in a particular practice area or industry. (standards sec. 1000 [par. .30](#))
  - obtain a sufficient understanding of the firm’s accounting and auditing practice or system of quality control when performing a peer review resulting in the need to perform additional work after the review working papers were submitted to the administering entity. This would also include failure to address significant differences between the background information provided to the administering entity during scheduling and the information that the firm provides to the reviewer. A significant difference is defined as one that would have affected peer review planning or procedures. (standards sec. 1000 [par. .41–.45](#))
  - adequately document a comprehensive risk assessment for the system review, and additional clarification was necessary after peer review working papers were submitted to the administering entity. (standards sec. 1000 [par. .49–.50](#))
- Engagement Selection and Review: The reviewer ~~did not~~
  - ~~did not~~ select a sufficient or appropriate scope of engagements for review in accordance with guidance. This includes selecting too many engagements on an engagement review. (standards sec. 1000 System Reviews [par. .53–.63](#); Engagement Reviews [par. .104–.109](#))



- did not properly select the “surprise” engagement or did not provide sufficient documentation of reasoning for selection. (standards sec. 1000 [par. .61](#))
- identified all significant issues in an engagement but did not appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight or RAB consideration. (System – Std. Par. .66–.67; Engagement – Std. Par. .109)
- Assessment and Disposition of Matters: The reviewer did not
  - identify matters, findings, deficiencies, or significant deficiencies appropriately. (standards sec. 1000 System Reviews [par. .70](#); Engagement Reviews [par. .110](#))
  - appropriately dispose of matters noted on the review or properly complete the DMFC form. (standards sec. 1000 System Reviews [par. .72–.74](#); Engagement Reviews [par. .112–.114](#))
  - properly consider or document the need to expand scope to other engagements or functional areas. (standards sec. 1000 [par. .68](#) and [Interpretation No. 84-1](#))
  - appropriately aggregate or evaluate matters noted on the review. (standards sec. 1000 System Reviews [par. .75–.86](#); Engagement Reviews [par. .111–.115](#))
- Completion of FFC Forms: The reviewer did not
  - systemically write findings in a System Review. (standards sec. 1000 [par. .83](#))
  - sufficiently complete or write FFC forms or evaluate the firm’s response. (System Reviews [sec. 4960](#); Engagement Reviews [sec. 6600](#))
  - properly identify a repeat finding. ([Interpretation No. 83-2](#))
  - provide proper recommendations to the firm to sufficiently address the findings. (System Reviews [sec. 4960](#); Engagement Reviews [sec. 6600](#))
- Reporting: The reviewer did not
  - properly identify that a deficiency was a repeat. (standards sec. 1000 System Reviews [par. .96](#); Engagement Reviews [par. .122n](#))

- provide sufficient peer review working papers or documentation to support the report rating. (standards sec. 1000 System Reviews [par. .87–.90](#); Engagement Reviews [par. .117–.119](#))
- systemically write deficiencies in a system review report, and a revision was required. (standards sec. 1000 [par. .96m](#))
- “close the loop” when reporting on deficiencies in a system review. (standards [sec. 4200.54g](#))
- provide proper recommendations to the firm to sufficiently address the deficiencies noted in the peer review report. (standards sec. 1000 System Reviews [par. .96m](#); Engagement Reviews [par. .122m](#))
- represent the report in standard form in accordance with peer review guidance, or significant revisions to the report were needed. (standards sec. 1000 System Reviews [par. .96](#); Engagement Reviews [par. .122](#))
- properly review, evaluate, and comment on the reviewed firm’s letter of response when the reviewer received the letter prior to its submission to the administering entity. (standards sec. 1000 System Reviews [par. .97](#); Engagement Reviews [par. .123](#))
- Completion and Submission of Working Papers: The reviewer did not
  - comprehensively complete peer review documentation, or the documentation that was submitted required revisions. (standards sec. 1000 [par. .24](#))
  - properly report engagement statistics or did not properly discuss in other peer review practice aids when it was determined that the engagement was not performed or reported on in conformity with professional standards in all material respects. This also includes consideration of the reviewed firm’s response to such an engagement in accordance with professional standards. ([Interpretation No. 66-1](#))
- Other departures from Standards for Performing and Reporting on Peer Reviews or other authoritative program guidance.

A reviewer feedback form should not be issued for inconsequential matters (See Section C), nor should a reviewer feedback form be used when a reviewer commits an egregious act. If ~~acts by the~~ reviewer’s performance, based on facts, circumstances, and evidence, is deemed by the committee to be egregious, the AE should consider issuing a removal letter to the board after following guidance in [section I](#).

Regardless of whether the reviewer cooperated in revising documents requested by the technical reviewer or committee, a reviewer feedback form is required to be issued whenever one or more of the above reviewer performance deficiencies are noted during oversight, technical review, or the RAB acceptance process.

The proper communication should be made regardless of the status of the reviewer. This includes reviewers currently suspended or subjected to other corrective actions, suspension, or restriction.

#### *Self-Reported Reviewer Performance Deficiencies*

When a reviewer notifies an AE that performance deficiencies are present on reviews that he or she submitted to the AE, and those reviews have not yet been subject to technical review, the reviewer should not receive a reviewer feedback form. The reviewer should be given the opportunity to make the appropriate corrections on those reviews. If the reviewer does not correct the situation, then feedback would be appropriate.

For example, if a committee notes that a reviewer failed to complete a proper risk assessment, and the reviewer knows that the same issue is present on other reviews which have been submitted to the AE but were not yet subject to technical review, the reviewer may contact the AE, notify them of the issue, and revise the risk assessments without receiving reviewer feedback forms on the other reviews.

### **C. Other Communications to the Reviewer**

Reviewer performance matters that do not rise to a sufficient level to be included on a reviewer feedback form may be provided as other communication, such as an e-mail or a call from the technical reviewer. Technical reviewers may provide other communications to reviewers for issues that are less critical in nature than the reviewer performance deficiencies considered on a reviewer feedback form; this is not considered feedback. For example, other communications would include notifying a reviewer that a checklist was not signed by the team captain or that the reviewer's handwriting was difficult to read.

Other communications should not be provided in lieu of issuing a reviewer feedback form. Technical reviewers should consider communicating to the committee the aggregation of less critical departures from peer review guidance to determine if, collectively, the situation warrants the issuance of a reviewer feedback form. If a reviewer feedback form is warranted, the committee should issue it.

Other communications should not be retained in the peer reviewer's file but should be kept with the review working papers and destroyed (with the review working papers) 120 days after the review is completed.

### **D. Performance Deficiency Letters**

### Issuance of a deficiency letter for performance deficiencies

If a pattern of reviewer performance deficiencies by a particular reviewer is noted, then the board or committee should issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future.

### Issuance of a deficiency letter for significant performance deficiency (ies)

If more than one significant reviewer performance deficiencyies areis noted (regardless of whether a pattern is present), ~~then~~ the board or committee should ~~issue a feedback form documenting the deficiencies. The board or committee should also~~ either issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future (standards sec. 1000 [par. .148](#)). However, if the reviewer's performance on a review is considered egregious, the board or committee may require the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future based on a single instance of reviewer performance deficiency.

Determining whether there is a pattern of reviewer performance deficiencies is a matter of professional judgment. In assessing whether a pattern of performance deficiencies is present, the committee or board should consider the recentness, nature and pervasiveness of the performance deficiencies, taking note of the volume of reviews performed by the reviewer.

For example, if a low-volume reviewer performs three reviews each peer review cycle and reviewer performance deficiencies were noted for all three, the committee or board may consider this a pattern of performance deficiencies. However, if a high-volume reviewer performs over 100 reviews each peer review cycle and reviewer performance deficiencies were noted on three of them, the committee or board may determine that a pattern of performance deficiencies is not present.

If the reviewer performs reviews for multiple AEs, more than one AE will be monitoring the performance of the reviewer. If an AE identifies a reviewer performance deficiency for a particular reviewer, the AE should search the AICPA's web-based platform for additional feedback forms which were issued to that reviewer. If an AE has a review submitted to the committee that has similar reviewer performance deficiencies to those identified in reviewer feedback forms issued by another AE, and the AE determines a pattern of performance deficiencies is present, the AE should issue a performance deficiency letter, as provided in this guidance.

In situations in which one or more corrective actions are required, the administering entity must inform staff and all administering entities where the reviewer has performed reviews during the 12 months preceding the date of the letter, and such actions will be recognized by all administering entities. Any corrective action required of a reviewer will apply to the individual's participation in the performance of any peer review unless the condition is specific to the individual's service as only a team captain, review captain, team member or QCM reviewer.

#### *Process for Issuing the Performance Deficiency Letter*

Before a decision is made to impose corrective actions or restrictions on the reviewer, the committee should ensure that the reviewer is knowledgeable of the evidence supporting the need for such corrective actions or restrictions. The AE issuing a performance deficiency letter should communicate (through e-mail) with the reviewer. This communication should include the various reviewer feedback forms, results of oversight, or a description of the significant reviewer performance deficiencies found in a particular review.

If, after considering the results of communications with the reviewer, it is determined that corrective action or restriction is appropriate, the AE should issue the performance deficiency letter.

- a. state that improvements are needed in the performance of the reviewer.
- b. include an explanation of the performance deficiencies.
- c. indicate that the individual must agree to comply with one or more actions in order to continue performing reviews, such as, but not limited to, the following:
  - i. Oversight (at the reviewer's expense) until evidence of completion of a future reviewer's training or accounting or auditing course(s) is received or performance improves.
  - ii. Have committee oversight on the next peer review(s) performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as cost of travel).
  - iii. Consult with the AE to discuss the planning and performance of the next review.
  - iv. Complete all reviews to the satisfaction of the committee, including submitting all reports and appropriate documentation on all outstanding peer reviews before

scheduling or performing another review, thus limiting the number of reviews that the reviewer may schedule or have open at one time.

- v. Have pre-issuance review(s) of the report and peer review documentation on future peer reviews by an individual acceptable to the committee Chair or designee who has experience in performing peer reviews.
  - vi. Remove or revise the résumé code until appropriate proof of experience and knowledge have been provided to the satisfaction of the committee.
  - vii. Other corrective action(s) that would assist the reviewer in his or her performance of future reviews.
- d. indicate that other AEs should impose the preceding action or restriction on the reviewer.
  - e. indicate that the committee may request the board to remove the individual's name from the list of qualified reviewers if improvements are not noted in the performance of the reviewer on subsequent reviews, or the reviewer refuses to cooperate, such as by failing to return a signed acknowledgement copy of the letter within 30 days from receipt of the date of the letter, or both.
  - f. give the reviewer an opportunity to appeal the decision before a hearing panel of the board, via telephone conference or in writing.
  - g. indicate that a request for appeal must be made within 30 days of receipt of the letter and that the actions or restrictions outlined in the letter will remain in effect for all reviews that the reviewer commences, pending the appeal.
  - h. be copied and sent to the managing partner of the reviewer's firm if the reviewer is not a sole practitioner and all AE's where the reviewer is scheduled to perform reviews or has performed a review in the past year.

#### *Issuance of Deficiency Letters by the Oversight Task Force*

If staff become aware of a pattern of reviewer performance deficiencies or significant reviewer performance deficiencies (regardless of whether a pattern is present) by a particular reviewer, staff will consult with the affected AEs to determine whether a performance deficiency letter is being drafted. If no performance deficiency letter is being drafted or will be drafted by the AE, staff may refer the reviewer performance issue to the Oversight Task Force (OTF) of the board which will consider the need to

issue a performance deficiency letter. The OTF's process for issuing the performance deficiency letter will be consistent with the process at the AE level.

#### **E. Appeals to the Board**<sup>fn 20</sup>

Reviewers who wish to appeal a performance deficiency letter must request that a hearing panel be assembled. That request must be made in writing (via e-mail or letter) to the board within 30 days of receipt of the performance deficiency letter. The reviewer should include any evidence to support the reviewer's position.

The request for an appeal will not lift or delay the action or restriction outlined in the performance deficiency letter. Once the performance deficiency letter has been issued, the action or restriction will remain in effect for reviews that the reviewer has commenced until the reviewer has shown improved performance, or the hearing panel determines that the action or restriction should be removed or revised, whichever occurs earlier.

See [section VI](#) of this chapter for appeal procedures per the *Rules of Procedure for Peer Reviewers*.

#### **F. AE Considerations When Reviewers Have Restrictions or Corrective Actions Placed Upon Them With the Issuance of a Performance Deficiency Letter**

Because reviews performed by reviewers when they are issued performance deficiency letters may be in different stages of completion, the following various scenarios should be considered by the committee when formalizing policies and procedures:

1. *A performance deficiency letter has been issued within the last 30 days and has not been signed by the reviewer.* The action or restriction included in the letter cannot be imposed if the reviewer has not acknowledged agreement by signing and submitting the letter. If the reviewer does not sign and submit the letter within 30 days of issuance, the AE should contact the reviewer by phone or e-mail (using the telephone number or e-mail address on the reviewer's résumé) to determine the reason for the failure to respond. The results of this call or electronic request should be documented. If the letter is not received within 7 days of contacting the reviewer, the committee should submit a removal letter to the board requesting the removal of the individual's name from the list of qualified reviewers due to the reviewer's failure to cooperate.

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<sup>fn 20</sup> See [footnote 3](#).

The committee should also consider on-site or off-site oversight on reviews that have commenced or been submitted for committee consideration. If oversight is not performed, the committee should consider whether the technical staff should perform a full technical review of all working papers related to the peer review. The technical reviewer should approach the review with a higher degree of skepticism with regard to the noted deficiencies. He or she should carefully consider the effect of the deficiency on the reviewer's ability to perform and report on the review and whether, based on his or her procedures and any other procedures performed, including oversight, he or she was able to overcome concerns over the reviewer's performance during the review. Technical staff should fully report on these procedures to the committee.

2. *A performance deficiency letter has been signed by the reviewer and requires oversight or a pre-issuance review prior to submission to the committee, and*
  - a. *the scheduled review has commenced, but fieldwork is not complete.* The action in the performance deficiency letter should be adhered to by all AEs.
  - b. *fieldwork has been completed prior to the receipt of the signed letter, but working papers have not yet been received by the AE, or the review is in house awaiting technical review.* The action in the performance deficiency letter should be adhered to by all AEs. Because the action will delay the acceptance of the review, the firm should be notified.
  - c. *the review has been submitted for committee consideration.* The committee should consider deferring the review until the technical staff has performed the procedures previously described in (1). Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.
  - d. *the review is accepted, but the acceptance letter has not been sent to the firm.* The AE should discuss the matter with the Chair of the RAB or the committee Chair and consider if the acceptance letter should be delayed and the review deferred until other procedures have been performed. Other procedures could include oversight or a review of all working papers by the technical staff. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of



the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

If the technical staff reviews the working papers, they should approach the review with a higher degree of skepticism with regard to the reasons for issuance of the action placed upon the reviewer. They should carefully consider the reviewer's ability to perform and report on the review and whether, based on their procedures and any other procedures performed, they were able to overcome concerns about the reviewer's performance. Technical staff should fully report on these procedures to the committee.

- e. *the review is accepted, and the firm has been sent its acceptance letter, and*
  - i. *it is within the working paper retention period.* The committee should consider if the technical staff should perform the procedures previously described in (1). These procedures should be performed as soon as practicable. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.
  - ii. *it is outside of the working paper retention period.* The AE should contact staff to discuss the impact that this may have on reviews performed by the reviewer. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation. See [chapter 3](#) of the *Report Acceptance Body Handbook* for guidance on recall of peer review documents when a reviewer was not qualified to perform the review.

#### **G. Withdrawal of Actions Required in the Performance Deficiency Letter**

Corrective actions will be withdrawn once the committee(s) or board determine that the reviewer's performance deficiencies have been corrected. The AE or board that issued the letter will make this determination. The decision should be based on evidence supporting the reviewer's fulfillment of the obligation placed upon him or her (for example, attending a peer review course) or why the action or restriction is no longer required. The reviewer will receive a letter notifying him or her of such decision.

#### **H. Reviewer Removal Letters**

The committee should issue a removal letter to the board recommending that a reviewer be prohibited from performing peer reviews in the future when the reviewer

- Refuses to cooperate with the committee or board (for example, not signing the performance deficiency letter within 30 days);
- Fails to correct performance deficiencies after a corrective action has been required; or
- Has committed an egregious act in the performance of a peer review.

A reviewer who fails to comply with peer review standards and guidance such that significant reviewer performance deficiencies are noted may also be referred to the board for removal.

It is not necessary to issue a performance deficiency letter prior to the issuance of a removal letter. Any AE where the reviewer performs reviews may request the board to remove the reviewer from the list of qualified reviewers. Reviewers should not be referred for removal if reviewer performance deficiencies have been noted by the committee, corrective actions have been imposed on the reviewer and the reviewer has not had sufficient time and opportunity to correct the performance deficiencies.

When an AE requests the board to remove the reviewer, it should submit the removal letter and include all supporting documentation. Such a referral should be based on an affirmative vote of not less than a majority of the AE's peer review committee. A copy of the request should be submitted to the reviewer. The board will consider the need to remove the reviewer's name from the list of qualified reviewers or some other action(s) based on the facts and circumstances presented in the documents and evidence.

The committee should ensure that the reviewer is fully knowledgeable about the evidence supporting the issuance of a removal letter. The AE issuing a removal letter should communicate (either through discussion or e-mail) with the reviewer the various reviewer feedback forms, performance deficiency letters, and results of oversight. This communication must be documented. One of the objectives of the communication is to determine if there may be a disagreement between the reviewer and AE. If there is a disagreement, then the committee should follow the guidance in [chapter 7](#) of this handbook.

The committee should issue a removal letter (with proof of delivery) indicating that

1. the reviewer refuses to cooperate with the committee or board, failed to correct performance deficiencies after a corrective action has been imposed, failed to comply with peer review standards and guidance such

that significant reviewer performance deficiencies were noted, or committed egregious acts in the performance of a review.

2. the board is requested to consider whether the reviewer should be prohibited from performing reviews or whether some other action should be taken.
3. the board is also requested to suspend the reviewer's ability to schedule future reviews until this matter is resolved.

Submission of a reviewer for removal from the list of qualified reviewers must include, as applicable, supporting documentation, such as, but not limited to, reviewer feedback issued; deficiency letters; information of other communications, whether verbal or written; notes from committee meetings; and a timeline outlining the various communications.

Upon receipt of the removal letter and supporting documentation, the reviewer and AEs will be notified that a hearing panel will review the matter.

See [section VI](#) of this chapter for hearing panel procedures per the *Rules of Procedure for Peer Reviewers*.

#### *Issuance of Removal Letters by the Oversight Task Force*

If staff become aware that a reviewer refuses to cooperate with the committee or board, failed to correct performance deficiencies after a corrective action has been imposed, failed to comply with peer review standards and guidance such that significant reviewer performance deficiencies are noted, or committed egregious acts in the performance of a review, staff will consult with the affected AEs to determine whether a removal letter is being drafted. If no removal letter is being drafted or will be drafted by the AE, staff may refer the matter to the Oversight Task Force (OTF) of the board which will consider the need to issue a removal letter. The process for issuing the removal letter will be consistent with the process at the AE level.

### **I. Egregious ~~Performance-Matters~~Acts by a Reviewer**

Upon notification and evidence of egregious ~~performance-matters~~acts, the board or committee should consider restrictions against the reviewer. After reviewing evidence, facts, and circumstances related to an egregious act by a reviewer, the committee should consider issuing a removal letter requesting the board to take action against the reviewer. The committee should ensure the reviewer is fully knowledgeable about the evidence supporting the issuance of a removal letter. The administering entity issuing a removal letter should communicate (either through discussion or email) with the reviewer the evidence supporting the allegation. It is not necessary to issue other deficiency letters prior to the issuance of a removal letter. Depending on the facts and circumstances, some examples of

egregious performance acts by a reviewer include, but are not limited to, the following:

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

The evidence, facts, and circumstances and any other documentation supporting the egregious act should be sent to the board. Upon receipt of the removal letter and supporting documentation, the reviewer and AEs will be notified that a hearing panel will review the matter. See [section VI](#) of this chapter for hearing panel procedures per the *Rules of Procedure for Peer Reviewers*.

#### **J. AE Considerations When a Reviewer Is Removed from the List of Qualified Reviewers**

Because reviews performed by a reviewer may be in different stages of completion when the reviewer is notified that the board has removed him or her from the list of qualified reviewers, the following various scenarios should be considered by the committee when formalizing policies and procedures:

1. *The scheduled review has not commenced.* Within five business days of the reviewer being notified by the board or by the commencement date of a scheduled review, whichever is earlier, the reviewer must discuss the matter with the reviewed firm. The reviewer must withdraw from the scheduled review. Reviewers should keep in mind that their restriction is not ordinarily a valid reason for which an AE would grant an extension of the reviewed firm's due date.

If the reviewer fails to contact the reviewed firm within five business days, the AE may contact the reviewed firm to inform it that the reviewer will not be able to perform the firm's review. No details or explanation of the reason should be provided to the firm by the AE. Details should be discussed with the firm at the reviewer's discretion.

2. *The scheduled review has commenced and is in process, in house, or accepted*
  - a. *but the fieldwork is not yet complete.* The reviewer must inform the firm that he or she no longer has the ability to continue to perform the peer review. The reviewer should withdraw from the engagement, and the firm should contact the AE to reschedule the review.
  - b. *and the fieldwork is complete, but working papers have not yet been received by the AE, or the review is in house awaiting technical review.* The committee should consider the impact that this may have on the performance by the reviewer. Based on that assessment, the committee may decide that (on-site or off-site) oversight should be performed, possibly at the reviewer's expense. Although the review would have already been performed, the oversight can still be performed afterward with the cooperation of the reviewed firm in either providing or forwarding requested items to the person(s) performing the oversight.

If oversight is not performed, the committee should consider if the technical staff should perform a technical review of all working papers related to the peer review. If so, the technical reviewer should approach the review with a higher degree of skepticism with regard to the reasons for restriction. He or she should carefully consider the effect of the egregious act on the reviewer's ability to perform and report on the review and whether, based on his or her procedures and any other procedures performed, including oversight, he or she was able to overcome concerns over the reviewer's egregious performance of the review. Technical staff should fully report on these procedures to the committee.

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- c. *and the review has been submitted to the committee for its consideration.* Depending upon the egregious act, the committee should consider deferring the review until the technical staff has performed the procedures previously described in (b) or an oversight is done. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.
  3. *The review is accepted by the committee, but the acceptance letter has not been sent to the firm.* The AE should discuss the matter with the Chair of the RAB or the committee Chair and consider if the acceptance letter should be delayed and the review deferred until the procedures previously described in (b) have been performed or oversight is performed. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.
  4. *The review is accepted, and the firm has been sent its acceptance letter, and*
    - a. *it is within the working paper retention period.* The procedures previously described in (b) should be considered by the committee. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.
    - b. *it is outside of the working paper retention period.* The AE should contact staff to discuss the impact on reviews performed by the reviewer. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

#### **K. Reinstatement of Reviewers after Removal**

If a reviewer is removed from the list of qualified peer reviewers, the reviewer may apply for reinstatement by writing a letter to the board. Reinstatement may be granted at the discretion of the board Chair or his or her designee no sooner than three years after the date of the removal letter or the final decision of a hearing panel, ad hoc panel or review panel, whichever is later.

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If approved for reinstatement, the reviewer will be sent a letter indicating that the reviewer is able to schedule and perform reviews. It is expected that those reviewers who are granted reinstatement will be required to undergo corrective actions and may be subject to restrictions to be determined by the board Chair or his designee. Those required actions or restrictions will also be detailed in the letter.

Reinstatement as a committee member, RAB member, or technical reviewer would be at the AE's or committee's discretion.

## RAB and Technical Reviewer Training Requirements

### Why is this on the Agenda?

During the January 2016 meeting of the ECTF, task force members approved a proposal that would require RAB members and technical reviewers of each of the various administering entities to undergo training specific to those roles before (or shortly after) they begin serving in that role. The proposal is part of the overall initiative to increase the qualifications/expertise of everyone involved in the peer review process, not only just peer reviewers. These training requirements are summarized as follows:

#### **Proposed initial training requirement for new RAB members:**

- Complete an on-demand introductory RAB training course offered by the AICPA within 12 months prior to serving on a RAB. This course will be designed to cover the RAB process, responsibilities of RAB members, how recent changes in peer review guidance impact the RAB process, and will address frequently asked questions of experienced RAB members. Current RAB members would be grandfathered into the initial training requirement.

#### **Proposed initial training requirements for new technical reviewers:**

- Complete an on-demand introductory technical reviewer training course offered by the AICPA prior to (or shortly thereafter) commencing in that role. The course will be designed to train technical reviewers on the technical review process, responsibilities of technical reviewers, recent changes in peer review guidance impacting the technical review process, and address frequently asked questions of experienced technical reviewers. Current technical reviewers would be grandfathered into the initial training requirement.

Additionally, the ECTF approved a proposal that would require technical reviewers to complete ongoing training every year thereafter. The ECTF determined that ongoing training should be offered to RAB members annually, but that it should not be required.

#### **Proposed ongoing training requirements for technical reviewers:**

- For each calendar year after initial training requirements have been met, technical reviewers should complete a technical reviewer update course offered by the AICPA or attend the Annual Peer Review Conference. The update course will be designed to update technical reviewers regarding recent changes in peer review guidance impacting the technical review process.

#### **Proposed optional ongoing training for RAB members:**

- The AICPA will offer a RAB Update webcast annually. This course will be designed to update RAB members regarding recent changes in peer review guidance impacting the RAB process and cover any changes to the RAB Handbook. This ongoing training would be made available to existing RAB members on an as-needed basis (e.g. when there are changes to the RAB Handbook) and is optional. These courses would be live webcasts that could be attended live or be downloaded and listened to shortly thereafter.

### Feedback Received

Staff provided the proposal for RAB member training to the AATF on March 30<sup>th</sup> and there were no concerns or issues. Staff also provided the proposal for technical reviewer training to the TRATF on April 20<sup>th</sup> and there were no concerns or issues.



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**PRISM Impact**

None, although PRISM's replacement could potentially be used to ensure RAB members and technical reviewers meet the aforementioned training requirements.

**AE Impact**

AEs would need to ensure that any of their RAB members and technical reviewers comply with any required training.

**Communications Plan**

Staff will issue a Peer Review Alert upon approval.

**Effective Date**

The current proposed effective date would be January 1, 2017. For the RAB training requirement, individuals joining a RAB after January 1, 2017 would be required to meet the initial training requirement for RAB members.

Individuals becoming technical reviewers after January 1, 2017 would be required to meet the technical reviewer initial training requirement. They would then need to meet the ongoing training requirement in each subsequent calendar year.

Current technical reviewers would be required to meet the ongoing training requirement beginning in calendar year 2017.

**Board Consideration**

Discuss and approve the proposed changes shown in Attachment A below related to the RAB training requirements and technical reviewer training requirements in the RAB Handbook (PRPM Section 3300).

Attachment A also contains other conforming changes approved by the STF to reflect the new annual team captain training requirement as opposed to the former 8 hours of peer review training every three year requirement.

**Note:** *The following is an excerpt from the RAB Handbook (specifically Chapter 1, Section II), which details the requirements an individual must meet in order to serve on a report acceptance body.*

## 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).

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~~ **12 months** prior to serving on the committee or during the first year of service on the committee. fn 1 The peer review training and the criteria for demonstrating proficiency in the standards, interpretations, and guidance of the program is

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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. demonstrate proficiency in the standards, interpretations, and guidance of the program by completing the on-demand introductory RAB training course offered by the AICPA, ordinarily within 12 months prior to serving on a RAB. This course is designed to cover the responsibilities of RAB members and address frequently asked questions of experienced RAB members. It will also address how recent changes in peer review guidance impact the RAB process. (Interpretation No. 132-1c).

ef. 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 1 and SOC 2 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 meeting the ongoing training requirements for a team captain.

**Note:** The following is an excerpt from the RAB Handbook (specifically Chapter 2, Section I), which details the requirements an individual must meet in order to serve as a technical reviewer.

## 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~~12 month 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~~ meet the ongoing training requirements. 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. Demonstrate proficiency in the standards, interpretations, and guidance of the program by completing the on-demand introductory technical reviewer training course offered by the AICPA ordinarily within 12 months prior to serving as a technical reviewer. Additionally, all technical reviewers should complete or attend one of the following options in every calendar year thereafter:

- the on-demand technical reviewer update training course offered by the AICPA.
- the annual Peer Review Conference

These educational offerings are designed to cover the responsibilities of technical reviewers and address frequently asked questions and issues encountered by experienced technical reviewers. They will also address how recent changes in peer review guidance impact the technical review process. (Interpretation No. 132-1a).

32. 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.

**43.** 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.

## Exhibit 2-1 — Evaluation of Technical Reviewer

Purpose: This evaluation may be used by peer review committees to evaluate the qualifications and competencies of technical reviewers on an annual basis. This form is designed to give technical reviewers positive and constructive feedback.

Technical Reviewer: \_\_\_\_\_

### Part I: To Be Completed by the Technical Reviewer

1. Date and description of last ~~on-site~~ peer review training course.

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### Part II: To Be Completed by the Committee Chair

		Yes	No	N/A	Comments
<b>Qualifications:</b>					
1.	Did the technical reviewer meet the minimum requirements as specified in Interpretation No. 132-1 of the standards?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
	<ul style="list-style-type: none"> <li>(A) Be trained in the standards, interpretations, and guidance of the program by completing within the <del>three-year</del><u>12 month</u> period preceding the commencement of the technical review one or more training courses that are applicable to the type of peer review being evaluated, <del>and</del> (B) meet the team captain or review captain training requirements established by the board, <del>and</del> (C) <u>meet the technical reviewer training requirements established by the board.</u></li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
					_____
					_____
					_____
					_____
					_____
					_____

## Standing Task Force Updates

### Why is this on the Agenda?

Each of the standing task forces of the PRB 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.

### Standards Task Force

#### Accomplished since last PRB meeting:

The STF focused on the following items, which have been presented during the May 2016 PRB open session:

- The Improving Transparency and Effectiveness of Peer Review Exposure Draft, including;
  - Addressing the comments received
  - Applying any conforming changes throughout the manual and related supplementary guidance
  - Clarifying guidance related to the confidentiality of the program
  - Enhancing guidance related to the assessment of a firm's system of quality control through revamping checklists and staff interviews.
    - The peer review quality control enhancements are designed to complement the ASBs' quality control toolkit
- Non-Member Enrollment Exposure Draft
  - To facilitate ongoing EAQ initiatives and increase consistency, this ED would allow firms without AICPA membership to enroll in the Program
  - The current proposed effective date would be May 1, 2017; this is the date upon which firms with no AICPA members could begin enrolling in the Program
- Revisions to forms related to SEC Independence requirements
  - In an effort to assist firms in identifying engagements that may be subject to SEC independence requirements, the following areas will be updated;
    - Modification of Interpretations 52-1, 59-1, and 59-2
    - Team Captain checklist
    - Engagement Profile within the General Audit Checklist
    - Background Form (to include a link to a table that would assist in identification)
    - Engagements subject to SEC independence would be considered must cover engagements and addressed in Interpretation 63-3
- Revisions to document retention guidance
  - To facilitate the Institute's Enhancing Audit Quality initiative in conjunction with research projects
- Revisions to reviewer performance guidance
  - Clarifies recent enhancements to the reviewer performance feedback process within the RAB Handbook

In addition to the topics the STF has presented at this meeting, the STF has recently discussed the following items;

- In response to the EAQ Initiative, the STF has focused on nonconforming engagement considerations which include;



- Assisting reviewers with the identification of nonconforming engagements
- Assisting firms and reviewers with the proper assessment and remediation when a nonconforming engagement has been identified
- Actions to create additional disincentives for material non-conformity and/or consecutive nonconforming engagements
- In conjunction with the utilization of external resources in identifying peer review compliance, the STF is considering how to address the review of initial must select engagements when they fall outside of the peer review year.
- The STF is also considering the following items;
  - Standard language for MFC descriptions in Engagement Reviews
  - “Summary of No” form to facilitate aggregation and evaluation of no answers from engagement checklists

### **Other Future Topics**

- Guidance needed in response to the implementation of a new peer review platform;
  - Initial review guidance to assist in timing of the year end and due date when a firm reestablishes performance of A&A
  - Reinstatement after hearing
  - Noncooperation guidance for not completing the Annual Reporting Form
  - Completion of a peer review online
- National RAB guidance
- Consideration of standards impact from the recently issued ARSC ED; awaiting feedback from comments.
- Consideration of risk-based engagement reviews
- Consideration of clarified review standards (e.g. including definitions, capitalize “Board”, referencing QC10 in lieu of SQCS 8, etc.)
- Consideration of a new deep dive regarding “use of a specialist” (sufficiency of audit evidence)
- Consideration of a new exit conference and report date when a technical reviewer or the RAB requests changes to a peer review.
- Consideration of QCM review of AICPA materials
- Development of 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.).
- Update definitions of "personnel" and "professionals" used in various forms, practice aids, and guidance.
- 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.
- Removal of references to SSARS 19
- Consideration of allowing a peer reviewer to assist with pre-issuance review in the 2<sup>nd</sup> year after the peer review



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## Education and Communications Task Force

### Accomplished since last PRB meeting:

- Conference planning (ongoing)
  - Approval of general session agenda
  - Approval of conference cases
  - Approval of exchange of ideas topics
- Development of initial Team/Review Captain training courses
- Development of educational materials for hiring a quality peer reviewer
- Development of the “Are You Ready” webcast
- Development of materials for the must-select trainings for the EBP Conference and the NFP Industry Conference and the team captain ongoing trainings for Practitioner’s Symposium and Tech Conference and NAAATS.

### Upcoming tasks:

- Discussing potential improvements to Peer Review website
- Developing a training framework for Technical Reviewers
- Developing a training framework for new RAB members

## Oversight Task Force

### Accomplished since last PRB meeting:

- Reviewed conditionally accepted plans of administration
- Accepted RAB Observation reports
- Reviewed responses from AEs to RAB Observation reports
- Reviewed schedule of AE oversight visits
- Monitor the Enhanced Oversight results
- Discussed type of feedback issued by AEs as a result of the Enhanced Oversight
- Reviewed hearing backlog

### Upcoming tasks:

- OTF members will conduct AE oversight visits
- Monitor results of Enhanced Oversight
- Approve RAB Observation reports
- Monitor open reviews
- Monitor hearings backlog

## Firm and Engagement Tracking “Population Completeness”

### Objective

Develop efforts to verify that all firms that should be enrolled in peer review are enrolled and efforts to verify 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 have been captured in PRISM on peer review enrollment forms and scheduling background information forms since March 2015.
  - Staff also obtained EINs from other reputable sources of information.
  - In order to expedite the collection process, in February 2016, staff began a massive effort to request EINs from all enrolled firms if we did not already have it. Providing an EIN is a matter of cooperation with the Program.
  - As of April 2016 we have obtained EINs for approximately 60% of the 37,000 enrolled firms and request efforts are continuing.
  
- Goal: Identify source data for certain types of engagements performed by firms to assist in determining compliance with peer review requirements.
  - Federal regulators for which we have obtained or expect to obtain engagement and audit firm information
    - With EINs: Department of Labor (DOL - ERISA audits), Federal Audit Clearinghouse (FAC - single audits), Department of Housing and Urban Development (HUD - Yellow Book engagements), Department of Education (proprietary schools Yellow Book engagements)
    - Without EINs: FDICIA
  - Staff is currently evaluating data in the Federal Audit Clearinghouse (FAC) to determine compliance with peer review requirements.
    - Based on a preliminary assessment for filings with 2013 year ends, there are approximately 4,600 unique CPA firms in the FAC database. As of April 2016, 3,700 of those firms appear to be in compliance with peer review requirements.
    - Of the 900 firms that need to be further investigated, approximately 300 appear to be unmatched or unenrolled. If confirmed as unenrolled, those firms will be submitted to Ethics or other appropriate enforcement body for further investigation.
    - The remaining 600 firms are enrolled and staff is further investigating to determine if single audits should have been included in the peer review scope. If single audits were improperly omitted, the acceptance for those reviews will be recalled and the firm will either have a replacement review or the firm's enrollment will be terminated from the program.

### Next Steps

- Staff is going to continue evaluating external database sources to determine firm noncompliance with peer review requirements.

### PRPM Update

- We had previously been communicating that the Peer Review Program Manual (PRPM) was being migrated to OPL and that many PRPM sections, including the engagement checklists, would no longer be available on the AICPA's peer review webpages after early 2016.
- The recently issued April Reviewer Alert provided an important update. Specifically, to improve audit quality, make the peer review process more efficient and address feedback, the PRPM, including Team/Review Captain Packages, will now remain on the peer review webpages available for download to AICPA members, with some content available to the public (Standards, Interpretations, etc.).
- The content available to all members includes:
  - Engagement checklists,
  - Supplemental checklists,
  - Profiles,
  - Team/Review Captain Package zip files, and
  - Practice Management Toolkits.
- These materials will also be maintained on the AICPA's Online Professional Library (OPL) for subscribers. Those subscribers will have ability to:
  - Search the PRPM,
  - Add bookmarks and research notes, and
  - Link to references in guidance within their other OPL subscriptions
- An instructional guide on using the PRPM in OPL is in development
- Both resources will be kept up-to-date, and users can decide which resource serves their purposes better.
- Our peer review webpages have been updated to reflect this update.
- As expected, this news has been well received.
- We had gotten feedback regarding how the discounted multi-user subscriptions to OPL were being marketed and communicated. The feedback has been addressed.
- Since our January PRB update, our peer review webpages and OPL were updated for several guidance changes as reflected in the monthly Reviewers Alerts:
  - In January - PRPM 3300, RAB Handbook inadvertently did not reflect previous changes to Chapter 6, Section IV "Determining Noncooperation of Reviewed Firms". These changes had been properly reflected in the January and May 2015 CD/Looseleaf versions but were not carried over into OPL. This was fixed.
  - In February - Clarifications to Qualification Requirements to Serve as a Peer Reviewer: The .31 Interpretations in PRP 2000's Peer Review Standards' Interpretations were updated to reflect clarifications approved at the January meeting.

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- We expect changes approved at this May PRB meeting to be reflected on our peer review webpages and in OPL in late May.
  - There are a number of checklists that are being updated and expected to be final over the next several months.
  - For additional PRPM updates, continue to monitor your Reviewer Alerts.

## Agenda Item 1.14A

### Firms Dropped from the AICPA Peer Review Program for Non-Cooperation between December 18, 2015 and April 11, 2016 and not enrolled as of April 11, 2016.

Oracle Uid	Firm Number	Firm Name	State	Admin By	Letter Name
2042632	799347	Smith Klein & Pavano, CPA	CT	CT	BGINFO5
2002434	10029406	Hart & Gersbach Inc	OH	OH	FOFTIRQ5
5810428	5810428	Dan L. Stegall, CPA LLC	SC	SC	BGINFO5
2010634	10084771	Bell & Rust, A. C.	CA	CA	BGINFO5
2107952	10151958	Lutz, Law & Erlbaum	CA	CA	BGINFO5
2097394	10141302	A.L. Taylor & Associates,PC Corley Professional Advisors D/B/A Cerefice	IL	IL	FOFTIRQ5
9280403	9280403	& Co.	NJ	NJ	BGINFO5
2016731	10098558	Shoretz & Company, CPA's, PC	NY	NY	NOON5
2076848	10120612	Jack T. Plaistow	WI	WI	BGINFO5
2053099	1100932	Erling K. Christensen, CPA, LLC	WI	WI	QRF2
2010119	10084216	Sachetta & Callahan, LLC Filener & Associates PC dba Filener &	MA	MA	FOFTIRQ5
5184490	5184490	Company	NM	NM	BGINFO5
8258729	8258729	AGA Certified Public Accountants & Advisors	PR	PR	NOON5
9228201	9228201	LW & Company LLC	MO	MO	QRF2
8291328	8291328	Rivera CPA Group, Inc	PR	PR	BGINFO5
2089318	10133157	Manzano-Bahamonde & Co CPA P.S.C.	PR	PR	NOON5
4184377	4184377	Bentley, Bratcher & Associates, P.C.	TX	TX	FOFTIRQ5
2050501	1085528	Figer & Company	TX	TX	FOFTIRQ5
2015745	10097249	Frank Dzara	PA	PA	BGINFO5
2097649	10141557	Marty R. Chenault	TX	TX	BGINFO5
5277247	5277247	Global Business Solutions, LLC	UT	NPRC	BGINFO5
2033659	1164733	Goldenthal & Suss, CPA's PC	NY	NY	NOON5

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

Vallet Tax & Accounting, AC - Logan, WV  
James W. Shade, CPA - Evansville, IN  
Cartisano J. Brown & Company, LLC, CPAs - Union, NJ  
Thad H. Scott and Company - Fresno, CA  
Willis & Hecker - Dayton, OH



## Peer Review Program