

# Peer Review Board Open Session Materials

**November 14, 2014**

**Conference Call**

**AICPA Peer Review Board  
Open Session Agenda  
November 14, 2014**

Date/Time: Friday, November 14, 2014 1:00 PM (Eastern Standard Time)  
**WebEx Conference Call**

- 1.1 Welcome Attendees and Roll Call of Board\*\* – Ms. Ford/Ms. McClintock
- 1.2 Approve Revisions to Guidance on Consecutive Non-passing Reports\* – Mr. Parry
- 1.3 Approve Exposure Draft on Preparation of F/S Performed under SSARS and the Impact on the Scope of Peer Review\* – Mr. Parry
- 1.4 Approve Exposure Draft on Reviewer Performance\*\*\* – Mr. Parry
- 1.5 Discuss Updated Statistics on the DOL Project\*\* - Ms. Lieberum
- 1.6 Future Open Session Meetings\*\* – Ms. Thoresen
  - January 26-27, 2015 Task Force Meetings/Open/Closed sessions – Puerto Rico
  - May 4-5, 2015 Task Force Meetings/Open/Closed Sessions – Durham, NC
  - August 5, 2015 Open/Closed Session – New Orleans, LA
  - September 21-22, 2015 Open/Closed – Conference Call

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\*- Document Provided

\*\*-Verbal Discussion

\*\*\*-Agenda Materials to be provided at a later date

## Consecutive Non-passing Reports

### Why is this on the Agenda?

Currently, a firm may be referred to a hearing panel of the AICPA Peer Review Board after receiving three consecutive non-passing (pass with deficiencies and/or fail) peer review reports if the peer review committee at the administering entity determines that there has been a failure to improve. This process takes three peer review cycles, or a minimum of nine years, before the consideration for referral can be made.

This agenda item proposes revisions intended to improve quality, protect the public interest and respond to concerns that the current AICPA process is too lengthy by shortening the process. The proposal changes the number of peer review cycles that a firm may receive consecutive non-passing reports from three (or, at a minimum, nine years) to two (or, at a minimum, six years) before the firm's improvement is evaluated for possible referral to a hearing panel.

### Feedback Received

Staff received feedback from the STF during conversations on August 21-22, 2014, and the AICPA internal legal team on October 14, 2014.

### PRISM Impact

The impact of changing the PRISM programming to send the notification letter after the first non-passing report (as opposed to the second) is deemed as minimal.

### AE Impact

AE impact is deemed nominal as the process remains unchanged.

### Communications Plan

Peer Review Alert will be distributed to reviewers to summarize the technical changes (Agenda Item 1.2D).

### Manual Production Cycle (estimated)

The changes to Interpretations (PRP Section 2000) and the Report Acceptance Body Handbook (PRP Section 3300, Chapter 3) will be included in the next manual production (expected in January 2015 if approved by PRB by November 14, 2014)

### Effective Date

Guidance would be effective for initial non-passing reports accepted after January 1, 2015. Accordingly, firms that receive an initial non-pass report after that date will be subject to the new guidance. While firms that have received an initial non-pass report prior to January 1, 2015 will follow the guidance in place presently.

### Task Force Consideration

Review and approve the proposed changes to:

1. Review and approve the changes to Interpretation 5h-1 (Agenda Item 1.2A)
2. Review and approve the changes to the RAB Handbook (Agenda Item 1.2B)
3. Review and approve the changes to the Administrative Manual (Agenda Item 1.2C)
4. Review and approve the changes to the Notification ("Repeat") letter (Agenda Item 1.2D)
5. Review and approve the Peer Review Alert (Agenda Item 1.2E)

## 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, and May 3, 2011, and January 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*, and timely notify its administering entity of its requirement 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 is dropped for not accurately representing its accounting and auditing practice as defined by the *AICPA Standards for Performing and Reporting on Peer Reviews*, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the *AICPA Code of Professional Conduct*.

*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, ~~and September 30, 2014,~~ and November 14, 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 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 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*, the matter will result in referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA *Code of Professional Conduct*.

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to receive a pass report with a rating subsequent to of pass after (1) receiving at least two consecutive peer reviews prior to the third that had a report with a peer review rating of *pass with deficiencies* and/or *fail* (previously referred to as modified or adverse reports) AND (2) receiving notification via certified mail, or other delivery method providing proof of receipt, after the second consecutive report with a peer review rating of *pass with deficiencies* and/or *fail* (previously referred to as modified or adverse reports); that a third consecutive failure to receive a report with a peer review rating of *pass with deficiencies or fail* (previously referred to as an unmodified report) may be considered a failure to cooperate with the administering entity. Report Reviews<sup>4</sup> containing significant comments are considered equivalent to failing to receive a report with a peer review rating of *pass* (previously referred to as an unmodified report) for the purposes of this resolution.

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 results in a significant change in the planning, performance, evaluation of results, or peer review report is a matter of non-cooperation. 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.

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<sup>4</sup> Although standards no longer permit the performance of Report Reviews as of January 1, 2009, a firm's last peer review could have been a Report Review.

## RAB Handbook

### IV. Determining Noncooperation of Reviewed Firms

Paragraph 5h 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, including taking remedial, corrective actions as needed.

#### A. Failing to Correct Deficiencies or Significant Deficiencies

Instances of noncooperation by a reviewed firm would include, but are not limited to (sec. 1000 par. .144)

- refusal to cooperate
- failure to correct deficiencies or significant deficiencies
- deficiencies that indicate the firm to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate
- receiving peer reviews with recurring deficiencies or significant deficiencies that are not corrected
- failure to ~~correct deficiencies or significant deficiencies after consecutive corrective actions requested by a RAB~~ receive a report rating of pass 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

In addition, AICPA Board Resolution states;

A firm is deemed as failing to cooperate once the review has commenced by:

- not responding to inquiries.
- withholding information significant to the peer review, for instance but not limited to 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.
- 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.
- 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.
- failing to timely acknowledge and complete required corrective actions or implementation plans.

If a firm is deemed not to be cooperating, the RAB or the technical reviewer should advise the administering entity's peer review committee concerning this fact. In such circumstances, the administering entity's peer review committee should consider whether additional requirements for remedial or corrective actions are adequate responses to the situation. If, after the firm received notification through fair procedures, the committee deems that the firm is still not cooperating, it should refer the matter to the AICPA Peer Review Board with a recommendation that the AICPA Peer Review

Board appoint a hearing panel to consider whether the firm’s enrollment in the AICPA Peer Review Program should be terminated or whether some other action should be taken. Such a referral should be supported by a two-thirds vote of the administering entity’s full peer review committee.

Submission of a firm for termination must include supporting documentation such as, but not limited to, warning letters issued to the firm, information of other correspondence whether verbal or written, notes from committee meetings, and a timeline outlining the various communications. AICPA staff will submit a “Notice of Hearing” to the firm via certified mail. If a decision is made by the hearing panel to terminate a firm’s enrollment in the program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the 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 (sec. 1000 par. .145).

**B. Failing to Improve on Consecutive Peer Reviews**

Reviewed firms failing to improve on consecutive peer reviews as a result of not correcting deficiencies or significant deficiencies, would be deemed as non-cooperating if the following criteria are met:

Failing to receive a pass report with a rating subsequent to of pass (or, for reviews commenced before January 1, 2009, an unmodified report) after (1) receiving at least two consecutive peer reviews prior to the third that had a report with a peer review rating of pass with deficiencies and/or fail (previously referred to as *modified or adverse reports*) AND (2) receiving notification via certified mail, or its equivalent, after the second consecutive report with a peer review rating of pass with deficiencies and/or fail (previously referred to as *modified or adverse reports*), that a third consecutive failure to receive a report with a peer review rating of pass with deficiencies or fail may be considered a failure to cooperate with the administering entity. Report reviews<sup>4</sup> containing significant comments are considered equivalent to failing to receive a report with a peer review rating of pass (previously referred to as an *unmodified report*) for the purposes of this resolution (Interpretation No. 5h-1—Excerpt from 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 14, 2014**).

1. Notification to be sent to Firms Receiving Consecutive Pass with Deficiency(ies) or Fail Reports

The board has determined that notification, via certified mail or its equivalent, should be sent to the firm whenever the firm has received ~~two consecutive~~ a pass with deficiency(ies) or fail reports.

The notification includes a copy of the resolution and notifies the firm that if the firm fails to receives a pass ~~pass with deficiencies or fail~~ peer review report rating on its next peer review, the full committee of the administering entity may refer the matter to the Board for it to consider whether a hearing should be held for the firm’s failure to cooperate with the administering entity. This notification is required as part of the fair procedures if the committee determines that a firm is not cooperating and refers the firm to the Board for consideration of termination.

2. Determining When to Refer a Firm to the Board for Noncooperation

If the firm fails to receives a ~~third~~ pass consecutive review that is not a peer review report rating on its next peer review, of pass, the RAB, and ultimately the administering entity’s peer review committee, must assess whether this should be deemed as noncooperation by the firm. This needs to be considered on a case-by-case basis. For instance:

<u>First Report Was</u>	<u>Second Report Was</u>	<u>Recommended Action</u>
<u>Pass with Deficiencies</u>	<u>Pass</u>	<u>None</u>
<u>Pass with Deficiencies</u>	<u>Pass with Deficiencies</u>	<u>Committee assessment</u>
<u>Pass with Deficiencies</u>	<u>Fail</u>	<u>Committee assessment (presumption of referral)</u>

<sup>4</sup> Although standards no longer permit the performance of report reviews as of January 1, 2009, a firm’s previous peer review could have been a report review.



<u>Fail</u>	<u>Pass</u>	<u>None</u>
<u>Fail</u>	<u>Pass with Deficiencies</u>	<u>Committee assessment</u>
<u>Fail</u>	<u>Fail</u>	<u>Committee assessment (presumption of referral)</u>
<u>Three consecutive non-pass reports</u>		<u>Referral</u>

The decision to ~~assess~~<sup>consider</sup> the firm's attempted improvement to determine if the firm should be referred to the Board should include reviewing the previous peer review documents including the report(s), LOR(s) and related follow up actions. Committee considerations should include, but not be limited to:

- Has the firm improved at all? Does the firm appear to be attempting to improve? Examples may include evidence of actions outside of those in the firm's Letter of Response or corrective actions to resolve deficiencies or significant deficiencies.
- Did the firm implement corrective actions?
- ~~A~~<sup>or</sup> are the deficiencies the same as before?
- Did the firm have numerous deficiencies in the previous peer review that were just replaced with different ones?
- Although the deficiencies met the criteria to include in the peer review report(s), what specifically is the nature of deficiencies as compared to previous reviews?
- Did an accelerated review cover a period that provided the firm sufficient time to correct deficiencies?

After a RAB's careful review of the preceding considerations, the firm should be referred to the Board if it is evident the firm did not implement the corrective actions it stated it would, deficiencies in previous peer reviews are included in the current peer review, or the firm has not made attempts to appropriately design or comply with its system of quality control.

An example when a firm should not be referred to the Board for noncooperation might be when the firm has demonstrated improvement from the last peer review but other deficiencies were noted causing a consecutive pass with deficiency~~ie~~(s) or fail report. In this case, it would appear that the firm had taken actions that corrected the prior reported deficiency. However, in doing so, it may have created new deficiencies. In this case, the firm is deemed to be cooperating because it took remedial actions to correct the original deficiencies. Instead of referring the firm to the Board, the firm should be given corrective actions that will allow the firm to rectify the deficiency.

If a firm's previous system peer review resulted in a report with a peer review rating of pass with deficiencies or fail due to significant audit deficiencies and the firm subsequently gave up its audit practice and notified the administering entity in writing or in the letter of response, the committee may decide that the firm should not be referred to the Board for noncooperation.

If a firm receives a report with a peer review rating of fail after having received either a peer review rating of pass with deficiencies or fail in its prior peer review, there is a presumption that the assessment of the full committee of the administering entity would result in a referral of the matter to the Board for it to consider whether a hearing should be held for the firm's failure to cooperate with the administering entity. This presumption may be overcome by circumstances evaluated during the assessment, such as evidence of aggressive actions by the firm to correct the deficiencies or significant deficiencies.

If the peer review committee refers the firm to the Board for noncooperation, it should remit its documented evaluation of the committee's considerations with other supporting documentation to

<sup>2</sup> ~~And the letter of comments, if applicable, for reviews commenced prior to January 1, 2009.~~

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the Board. The Board will review this information when considering whether the firm's enrollment in the AICPA Peer Review Program should be terminated or whether some other action should be taken.

If the peer review committee does not refer the firm to the Board for noncooperation, or if for other reasons, the firm receives three consecutive reports with a peer review rating of pass with deficiencies or fail, the full committee of the administering entity shall refer the matter to the Board for it to consider whether a hearing should be held for the firm's failure to cooperate with the administering entity.

If a decision is made by the hearing panel to terminate a firm's enrollment in the program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the 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 (sec. 1000 par. .145).

### Administrative Manual

- f. If the administering entity is unable to contact the reviewed firm because, for example, the firm does not return its calls, the third Overdue Implementation Plan Document letter, IPOD3, should be mailed 14 days after IPOD2 was mailed.
- g. If the implementation plan is not completed within 14 days of IPOD3 being sent to the firm, the administering entity should notify the AICPA of the failure by processing IPOD4 through PRISM. Upon receipt of this PRISM notification and all supporting documentation via Footprint ticket, AICPA will follow the procedures for terminating a firm outlined in Chapter 11. It is important to submit all supporting documentation to your coordinator via Footprint when referring a firm to AICPA for termination hearing. A list of the hearing documents required can be found on SharePoint.

### Completion of Implementation Plans

- 1. When a firm has submitted evidence of the implementation plan, if the committee is satisfied, IPCOM, implementation plan completion letter, should be sent to the firm.
- 2. If after receiving evidence of completion of the implementation plan and, in the rare event, the committee determines that the firm should agree to an additional implementation plan, the letter known as IPADD, implementation plan approved and additional implementation plan is required, should be sent.

### Consecutive Pass with Deficiencies or Fail Reports

- 1. Firms that receive ~~two~~ consecutive peer review reports that are either pass with deficiencies or fail may be deemed as not cooperating, and the ~~Consecutive Adverse~~ **Repeat** letter, as found on the SharePoint Letter List, must be issued to the firm after the first non-pass report rating is received.
- 2. Committees should review the procedures outlined in the Report Acceptance Body Handbook regarding failing to improve (Chapter 6, Section IV Part B) ~~consecutive pass with deficiencies or fail reports~~. If the committee deems that the firm has not shown any improvements, the administering entity should notify the AICPA in writing.

### Committee Replaces or Waives a Corrective Action/Implementation Plan

Committees may request firms to complete corrective actions or implementation plans (actions/plans) that are industry or engagement type specific when deficiencies in that industry or specific engagement type are identified during the peer review.

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In situations where the firm represents that it will no longer perform engagements in that industry (such as A-133) or those types of engagements (such as audits), the action/plan may be replaced

Notification (“Repeat”) letter

for-each ROWLETTER\_DATE

FIRST\_NAME MIDDLE\_INITIAL LAST\_NAME

REVIEWED\_FIRM\_NAME

Address\_Line1

C1address\_Line2ec1

City STATE Zip Zip\_Plus

**Certified Mail—Return Receipt Requested**

Dear SALUTATION:

**5PRINT FOR AICPA FIRMS** Quality in the performance of accounting and auditing engagements by its members is the goal of the AICPA peer review program. The program seeks to achieve its goal through education and remedial corrective actions. The goal serves the public interest and enhances the significance of AICPA membership. Firms in the AICPA need to establish and maintain appropriate quality control policies and procedures, and comply with them to ensure the quality of their practices.

Our records indicate that your firm has received ~~consecutive~~ a pass with deficiencies or fail peer review reports.

The AICPA Peer Review Board (Board) has adopted the enclosed resolution regarding a firm’s cooperation with the administering entity administering its review and with the Board. If your firm receives a pass with deficiencies or fail peer review report on its next peer review, the full committee of the administering entity may refer the matter to the Board for it to consider whether a hearing should be held for the firm’s failure to cooperate with the administering entity.

We encourage you to ensure that your firm maintains an appropriately designed system of quality control and that you and the members of your firm comply with that system to provide reasonable assurance of conforming with professional standards. **5EC**

**3PRINT FOR NON AICPA FIRMS** Quality in the performance of accounting and auditing engagements by its members is the goal of the STATE\_SOCIETY\_NAME peer review program. The program seeks to achieve its goal through education and remedial corrective actions. The goal serves the public interest. Firms need to establish and maintain appropriate quality control policies and procedures, and comply with them to ensure the quality of their practices.

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Our records indicate that your firm has received ~~consecutive~~ a pass with deficiencies or fail peer review reports.

If your firm receives a pass with deficiencies or fail peer review report on its next peer review, the full committee of the STATE\_SOCIETY\_NAME may choose to terminate you from its peer review program.

We encourage you to ensure that your firm maintains an appropriately designed system of quality control and that you and the members of your firm comply with that system to provide reasonable assurance of conforming with professional standards.**3EC**

Sincerely,

SIGNATURE\_NAME

SIGNATURE\_TITLE

EMAIL\_ID PHONE\_NUMBER

C cc: EMAIL\_CC\_NAMEEC

Firm Number: REVIEWED\_FIRM\_NUMBER

Review Number REVIEW\_NUMBERend ROW

**Peer Review Alert**  
**Revisions to Consecutive Non-passing Report Guidance**

The Peer Review 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. In order to more responsively deliver on that underlying principle, the Peer Review Board (Board) approved revised guidance related to a firm's receipt of consecutive non-passing peer review report ratings.

The revised guidance requires notification of firms upon receiving a peer review report rating of *pass with deficiencies* or *fail* via certified mail or its equivalent. Firms that receive a consecutive peer review report rating of *pass with deficiencies* or *fail* will be evaluated by their administering entity's peer review committee and may be deemed not to be cooperating. Firms deemed noncooperative will be notified and 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.

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

**Why is this on the Agenda?**

The Board recently issued an exposure draft on August 18th that proposed to exclude engagements performed in accordance with the SSARS Preparation of Financial Statements (preparation engagements) from the scope of the AICPA peer review program (Program). Staff has received feedback that some state boards of accountancy (SBOA) require peer reviews of professional services performed in accordance with SSARS without specifically excluding preparation of financial statements. Regardless of the actual intent behind these laws, these states could require peer reviews of preparation engagements. Additionally, upon further consideration, Staff has concluded that a peer reviewer could perform procedures on a preparation engagement to determine whether the financial statements and their related footnote disclosures conform with the applicable financial reporting framework in all material respects. As a clarification to the exposure draft issued August 18th, preparation engagements require the accountant to disclose the use of a reporting framework (basis of accounting) other than GAAP and a reader could assume the financial statements were prepared in accordance in GAAP absent a disclosure stating otherwise. Additionally, as part of a review of a preparation engagement, a peer reviewer could 1) determine whether a “no assurance” legend was included on each page of the financial statements, 2) determine whether a disclaimer report, if applicable, was issued, and 3) review for a properly signed engagement letter, which contains certain information required by SSARS.

Staff would like the Board to consider the following proposal (attachment 1.3B) which indicates that firms only performing preparation engagements would not be required to enroll in the Program. However, the proposal would not exclude preparation engagements from the scope of the Program for enrolled firms. Staff considered feedback from the initial exposure draft, feedback from NASBA, and how a preparation engagement could be reviewed when developing this proposal, which would facilitate AICPA members’ and others’ compliance with SBOA licensing requirements, mitigate any mobility challenges that may arise and promote consistency in the Standards..

Unlike the original exposure draft, this current proposal would not require any modifications to the definition of an accounting and auditing practice as outlined in paragraph 6 of the Standards as preparation engagements would be included in the scope of both system and engagement reviews for firms that elect to enroll in the Program or firms that would already be required to be enrolled.

This proposal would not affect the process for selecting engagements in a system review as a team captain would only select preparation engagements if it was determined to be necessary based on the risk assessment. For an engagement review, the proposal stipulates that a preparation engagement would not be selected unless certain requirements of paragraph .104 of the Standards could not be met otherwise. More specifically, a preparation engagement is only selected if one of the individuals within a firm responsible for performing engagements/issuing reports only performs preparation engagements or if a firm performs no other engagements with disclosures except for preparation engagements or if a firm performs no other engagements that omit disclosures except for preparation engagements. Additionally,



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the requirement that ordinarily at least two engagements should be selected for review is unchanged. Therefore, a reviewer should select a preparation engagement if it is needed to meet the requirement of selecting at least two engagements.

### **Feedback Received**

- Staff has received 18 responses to the initial exposure draft. While the responses have been mixed, ten of the respondents were not in favor of the proposal to exclude preparation engagements from the scope of peer review. This is primarily due to concerns of failing to serve the public interest, amongst other reasons. Responses were received from practitioners, various committees (e.g. peer review committees) from state societies and the AICPA, SBOAs, educators and NASBA. A summary of the responses are included at Agenda Item 1.3C. The full responses are located at the following web address:  
<http://www.aicpa.org/Research/ExposureDrafts/PeerReview/Pages/default.aspx>
- At our request, NASBA conducted research as to whether SBOAs currently include preparation engagements in the scope of their peer review requirements.
- Based on the research performed by NASBA, AICPA counsel commented that some states explicitly indicate the types of services that require a peer review in their regulations, and many states require peer reviews of professional services performed in accordance with SSARS without specifically excluding preparation of financial statements). Regardless of the actual intent behind these laws, an argument could be made that these states could require peer reviews of preparation engagements.
- AICPA counsel also commented that there is nothing in the bylaws or resolutions that would restrict the Board from not requiring firms that only perform a particular type of service to enroll in the Program.
- Through NASBA's research and the AICPA's, many state boards currently define "compilation" in their statutes or regulations in a manner where preparation engagements may fall under that definition and also where "attest and compilation services" fall under peer review.

### **PRISM/Technology Impact**

Staff are currently in conversation with our Technology team to determine how PRISM can be modified to include preparation engagements, if at all, in the relevant sections of PRISM. If no modifications are possible, Staff will determine what portions of the Manual should be or could be edited to allow firms to indicate they perform preparation engagements and for firms to indicate the results of the reviews on preparation engagements that they have performed.

### **AE Impact**

AEs would need to follow the revised guidance upon adoption by the PRB.

### **Communications Plan**

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

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

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

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## Effective Date

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

## Board Consideration

Staff would like the Board to consider the following questions:

- Do we move forward with excluding preparation engagements from peer review when doing so may create Standards that will not allow AICPA members to meet their state board licensing requirements?
- Do we create standards where:
  - Firms that only perform preparation engagements are not required to enroll in peer review? (regardless of whether a disclaimer report is issued).
  - Any CPA firm could enroll and undergo a peer review, whether required by state boards or AICPA bylaws (similar to the current treatment of management use only compilation engagements)?
  - The selection of a preparation engagement on a system review is risk based (like other non must-select engagements today)?
  - The selection of a preparation engagement on an engagement review is not always required? Our current proposal would suggest that a review captain would not need to select a preparation engagement unless:
    - one of the individuals within the reviewed firm responsible for issuing engagements performs nothing other than preparation engagements
    - the reviewed firm performs no other engagements with disclosures except for preparation engagements or,
    - the reviewed firm performs no other engagements that omit disclosures except for preparation engagements.
    - the reviewer needs to be able to select two engagements.

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**Peer Review Alert**  
**Preparation Services Exposure Draft**

The Peer Review Board (Board) has issued a new [exposure draft/ <link>](#) on November 18, 2014 that states that firms that only perform preparation engagements under SSARS would not be required to enroll in the AICPA peer review program (Program) but may elect to do so. The Board has considered the Preparation of Financial Statements SSARS, comments received on the August 18, 2014 exposure draft, state board implications, and how a preparation engagement could be reviewed in concluding to issue a new exposure draft. Paragraph .06 of the Standards currently indicates “an accounting and auditing practice for the purposes of these Standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm’s accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).” With the current proposal, no revisions to paragraph .06 are required, although a change to paragraph .07 is currently being proposed which would explicitly state that firms are not required to enroll in peer review if they only perform preparation engagements. However, the Exposure Draft describes changes to paragraphs .104 and .108 and introduces new interpretations to describe when a preparation engagement should be selected for enrolled firms and what procedures the reviewer can perform on these engagements.

Comments and responses about the exposure draft should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

The Board will consider the proposed changes and the comments received during open session on January 27, 2015. The proposed changes, if approved, will be effective upon issuance.

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# **EXPOSURE DRAFT**

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

**Preparation of Financial Statements Performed under SSARS and the  
Impact on Enrollment in and the Scope of Peer Review**

**November 18, 2014**

**Comments are requested by January 2, 2015**

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

**Comments should be received by January 2, 2015 and addressed to  
Tim Kindem, Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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November 18, 2014

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

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after January 3, 2015 for a period of one year.

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

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

Sincerely,

[Insert Anita's Signature]

Anita M. Ford  
Chair  
AICPA Peer Review Board

**AICPA Peer Review Board  
2014 – 2015**

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

Michael McNichols  
Thomas Parry\*  
Andrew Pope\*  
Thad Porch  
Robert Rohweder\*  
Keith Rowden  
Todd Shapiro  
Debra Seefeld  
Thomas W. Whittle

*\*Member—Standards Task Force*

**Non-Board Standards Task Force Members  
2013 – 2014**

Jerry Cross

Heather Reimann

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Public Practice and Global Alliances

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Ethics and Practice Quality

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Technical Director  
AICPA Peer Review Program

Susan Lieberum  
Senior Technical Manager  
AICPA Peer Review Program

Frances McClintock  
Senior Technical Manager  
AICPA Peer Review Program

Tim Kindem  
Technical Manager  
AICPA Peer Review Program



# Explanatory Memorandum

## Introduction

This memorandum provides background to the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews* (Standards) issued by the AICPA Peer Review Board (Board). The proposed changes state a firm is not required to enroll in the AICPA peer review program (Program) if it only performs engagements under SSARS *Preparation of Financial Statements* (preparation engagements). This memorandum also proposes when to include preparation engagements in the scope of a peer review when a firm either elects to enroll in the program (e.g. to comply with licensing or other requirements) or is already enrolled due to other engagements it performs. Finally, the memorandum solicits input on the proposal from all interested parties.

## Background

### Inclusion of Preparation Engagements in the Scope of Peer Review

The Board recently issued an exposure draft on August 18th that proposed to exclude preparation engagements from the scope of the Program. The Board has received feedback that many state boards of accountancy (SBOA) require peer reviews of professional services performed in accordance with SSARS without specifically excluding preparation engagements. Regardless of the actual intent behind these laws, these states could require peer reviews of preparation engagements. While the Board is concerned that users of these financial statements could place undue reliance on them, the Board wants to facilitate AICPA members' and others' compliance with SBOA licensing requirements and mitigate any mobility challenges that may arise if these engagements are excluded entirely.

Additionally, upon further consideration, the Board has concluded that a peer reviewer could perform procedures on a preparation engagement to determine whether the financial statements and their related footnote disclosures conform with the applicable financial reporting framework in all material respects. To clarify the exposure draft issued August 18th, preparation engagements require the accountant to disclose the use of a reporting framework (basis of accounting) other than GAAP and a reader could assume the financial statements were prepared in accordance in GAAP absent a disclosure stating otherwise. Additionally, as part of a review of a preparation engagement, a peer reviewer could 1) determine whether a "no assurance" legend was included on each page of the financial statements, 2) determine whether a disclaimer report, if applicable, was issued, and 3) review for a properly signed engagement letter, which contains certain information required by SSARS.

The Board has considered the previously mentioned SBOA implications, how a preparation engagement could be reviewed, and comments from its initial exposure draft in concluding that preparation engagements should not be excluded from the scope of the Program.

AICPA bylaws state that firms (or individuals in certain situations) are only required to enroll in the Program if they perform services that are within the scope of the Standards and issue reports purporting to be in accordance with AICPA Professional Standards. The proposed changes to the Standards indicate that firms only performing preparation engagements under SSARS and no other engagements included in the scope of the Standards are NOT REQUIRED to enroll in the Program to meet the bylaw requirements.

This current proposal does not require any modifications to the definition of an accounting and auditing practice for purposes of the Standards as all engagements performed under SSARS (including preparation engagements) are in the scope of both System and Engagement Reviews for enrolled firms, even if a firm elects to enroll in the Program or is required to be enrolled to comply with licensing or other requirements.

This proposal does not affect the process for selecting engagements in a System Review as selection is based on risk assessment. For Engagement Reviews, the proposal states that a preparation engagement is ONLY selected when certain requirements of paragraph .104 of the Standards cannot be met otherwise. Specifically, a preparation engagement is only selected if one of the individuals within the firm responsible for performing engagements/issuing reports only performs preparation engagements (and no other engagements within the scope of peer review) or if a firm performs no other engagements with disclosures except for preparation engagements or if a firm performs no other engagements that omit disclosures except for preparation engagements. Additionally, the requirement that ordinarily at least two engagements should be selected for review in an Engagement Review is unchanged. Therefore, if a firm only performs two engagements, one or both being a preparation engagement(s), one or both would be selected respectively.

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

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

This standard would apply when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review or a compilation on those financial statements. The standard can be applied to financial statements with or without disclosures. The standard would require that the accountant obtain an engagement letter signed by both the accountant and the client’s management.

A report would not be required – even when financial statements are expected to be used by or presented to a third party. Instead, the accountant would be required to include a legend on each page of the financial statements stating that no assurance is being provided. However, in

the rare circumstance the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer (report) on the financial statements.

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

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

Additionally, when preparing financial statements in accordance with a special purpose framework, the accountant should include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statements. A description of the special purpose framework is usually placed next to or under the title of the financial statements (for example “statement of assets and liabilities – modified cash basis”). However, the description may be placed elsewhere in the financial statements. Also, certain other disclosures are required in a preparation engagement. They include disclosure of any material misstatement(s) from any known departure(s) from the relevant framework as well as a disclosure of the omission of substantially all disclosures, if applicable.

The SSARS *Preparation of Financial Statements* were issued October 23, 2014 and are effective for the preparation of financial statements for periods ending on or after December 15, 2015 with early implementation permitted.

## **Explanation of Proposed Changes**

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

The proposed changes include revisions to:

- Paragraph .07 which states that firms that only perform preparation engagements (with or without disclaimer reports) under SSARS are NOT required to enroll in the Program.
- Paragraphs .104 and .108 to include preparation engagements as a type of engagement eligible to be selected under certain circumstances in an engagement review.

### **Revisions to Interpretations**

The proposal also includes new:

- Interpretations 7-3 and 7-4 which indicate how preparation engagements should be addressed when a firm elects to enroll in the Program or is otherwise already enrolled.
- Interpretations 104-1 through 104-4 which indicate how preparation engagements should be selected in an Engagement Review for an enrolled firm undergoing a peer review.

The proposed changes include revisions to:

- Interpretation 6-3 to clarify that a firm that only performs management use only compilations with no report and is not required to enroll in the AICPA peer review program, would be required to undergo a peer review if it elects to enroll in the Peer Review Program.

## **Comment Period**

The comment period for this exposure draft ends on January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after January 3, 2015, for a period of one year.

## **Guide for Respondents**

The Board welcomes feedback from all interested parties on this proposal which would Not Require a firm that only performs preparation engagements to enroll in the Program. The proposal also outlines how preparation engagements should be addressed in System and Engagement Reviews for enrolled firms.

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

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

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

Comments and responses should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

## **Effective Date**

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

# Proposed Revisions

## Peer Review Standards

### Overview

.07 The objectives of the program are achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform engagements under the SASs or Government Auditing Standards, examinations under the SSAEs, or engagements under PCAOB standards, as their highest level of service have peer reviews called System Reviews. A System Review includes determining whether the firm's system of quality control for its accounting and auditing practice is designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards, including SQCS No. 8, in all material respects. Firms that only perform services under SSARS or services under the SSAEs not included in System Reviews are eligible to have peer reviews called Engagement Reviews<sup>5</sup>, however firms that only perform preparation engagements (with or without disclaimer reports) under SSARS are not required to enroll in the program (see interpretations). These standards are not intended for and exclude the review of the firm's accounting and auditing practice applicable to engagements subject to PCAOB permanent inspection (see interpretations). Firms that do not provide any of the services listed in paragraph 6 are not peer reviewed (see interpretations).

### Performing Engagement Reviews

.104 The criteria for selecting the peer review year-end and the period to be covered by an Engagement Review are the same as those for a System Review (see paragraphs 13–19). Engagements subject to review ordinarily should be those with periods ending during the year under review, except for 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. The reviewed firm should provide summarized information showing the number of its compilation, review, and preparation engagements performed under SSARS and engagements performed under the SSAEs, classified into industry categories. That information should be provided for each partner, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements or the issuance of prepared financial statements with or without disclaimer reports. On the basis of that information, the review captain or the administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines (See Interpretations):

- a. One engagement should be selected from each of the following areas of service performed by the firm:
  1. Review of historical financial statements (performed under SSARS)
  2. Compilation of historical financial statements, with disclosures (performed under SSARS)
  3. Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
  4. Engagement performed under the SSAEs other than examinations

b. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item (a).

c. Selection of preparation engagements should only be made in the following instances:

1. 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 in item (a) or when the firm's only engagements with disclosures are preparation engagements.

2. 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 in item (a) or when the firm's only omit disclosure engagements are preparation engagements.

3. One preparation engagement should be selected if needed to meet the requirement in item (d).

ed. Ordinarily, at least two engagements should be selected for review.

.108 The evaluation of each engagement submitted for review includes:

a. Consideration of the financial statements or information and the related accountant's report on the compilation, and review, and preparation engagements performed under SSARS and engagements performed under SSAEs (see interpretations).

b. Consideration of the documentation on the engagements performed via reviewing background and engagement profile information, representations made by the firm, and inquiries.

c. Review of all other documentation required by applicable professional standards on the engagements.

## Peer Review Interpretations

### Compilations Performed When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party (Management Use Only), Where No Compilation Report Is Issued

**6-3 Question—** A firm is not required to enroll in the AICPA peer review program if ~~If a firm elects to enroll in the peer review program and its only level of service is performing compilations when the financial statements are not expected to be used by a third party (management use only) and when no report is issued,~~ However, if the firm elects to enroll in the peer review program, is the firm required to have a peer review?

**Interpretation—** ~~No~~ Yes. ~~If a~~ If a firm that elects to enroll in the peer review program, and its only level of service is performing management use only compilation engagements, it ~~is not~~ required to have a peer review, ~~but may elect to do so.~~ If a firm elects to undergo a peer review, ~~t~~ he peer review is required to be performed under these standards.

## Preparation of Financial Statements Engagements

7-3 Question— A firm is not required to enroll in the AICPA peer review program if its only level of service is performing preparation engagements (with or without disclaimer reports) under SSARS. However, if the firm elects to enroll in the peer review program is the firm required to have a peer review?

Interpretation— Yes. If a firm elects to enroll in the peer review program, and its only level of service is performing preparation engagements (with or without disclaimer reports) under SSARS, it is required to have a peer review. The peer review is required to be performed under these standards.

7-4 Question – Would preparation engagements (with and without disclaimer reports) be subject to peer review when the firm is already enrolled in the program because, for example, it performs services and issues reports on other engagements that are within the scope of the standards?

Interpretation – Yes. For firms enrolled in the program, preparation engagements (with and without disclaimer reports) fall within the scope of peer review. The standards define an accounting and auditing practice as all engagements covered by SSARS except where SSARS provide an exemption from those standards.

## **Selecting a Preparation Engagement in an Engagement Review**

104-1 Question – Must a peer reviewer select a preparation engagement in an Engagement Review?

Interpretation – No, a reviewer is not necessarily required to select a preparation engagement in an Engagement Review. If a reviewer is able to meet the requirements of paragraph .104 of the standards- without selecting a preparation engagement, then a preparation engagement is not selected. However, if selecting a preparation engagement is the only way a reviewer can meet any of the following requirements (as outlined in paragraph .104 of the standards), then a preparation engagement (either with or without a disclaimer report) should be selected. These requirements are as follows:

- Ordinarily, at least two engagements should be selected for review.
- One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports or performance of engagements.
- An engagement with disclosures (performed under SSARS or the SSAEs) should be selected.
- An engagement that omits substantially all disclosures (performed under SSARS) should be selected.

104-2 Question—What should the peer reviewer be reviewing on such an engagement on an Engagement Review?

Interpretation—The reviewer would review the engagement letter as well as the legend on each page of the financial statements to determine that they comply with SSARS. If the firm issues a disclaimer report, the reviewer would also assess whether it complied with SSARS. In addition, the reviewer should also perform procedures to determine whether the presentation of the financial statements is appropriate and that the disclosures are adequate based on the applicable financial reporting framework. If substantially all disclosures are omitted, the

reviewer would need to determine whether the appropriate label is present for any disclosures that are made.

**104-3 Question**—Should the standard language in the peer review report be tailored on an Engagement Review, if preparation engagement(s) are selected for review.

*Interpretation*—No.

**104-4 Question**—What are some examples of when a preparation engagement should be selected during an Engagement Review?

*Interpretation*—

Example 1 - If a sole practitioner performs compilation engagements with disclosures (or SSAEs, or reviews) and compilation engagements that omit substantially all disclosures, then one of each of these levels of service should be selected as part of the peer review. None of the firm's preparation engagements should be selected.

Example 2 - If a sole practitioner only performs compilation engagements with disclosures and preparation engagements that omit substantially all disclosures (and no other engagements under the SSAEs or SSARS), then one of each type of engagement should be selected as part of the peer review since an engagement that omits substantially all disclosures should be selected.

Example 3 - If a sole practitioner only performs compilation engagements that omit substantially all disclosures and preparation engagements with disclosures (and no other engagements under the SSAEs or SSARS), then one of each type of engagement should be selected as part of the peer review since a full disclosure engagement should be selected.

Example 4 - If a sole practitioner only performs compilation engagements with disclosures and preparation engagements with disclosures, then two compilation engagements should be selected as the selection of a preparation engagement is not required to be and should not be selected to meet any of the criteria outlined in paragraph .104 of the standards. However, if the firm only performs one compilation engagement with disclosures (as well as preparation engagements with disclosures and no other engagements under the SSAEs or SSARS), the compilation engagement and a preparation engagement should be selected as part of the peer review. In this case, a preparation engagement is selected in order to meet the requirement of selecting a minimum of two engagements.

Example 5 - Firm ABCDE is a 5 partner firm and Partner A performs agreed-upon procedure engagements, Partner B performs review engagements, Partner C performs full disclosure compilation engagements, Partner D performs compilation engagements that omit substantially all disclosures and Partner E performs preparation engagements. In this scenario one engagement is selected from each Partner ABCD which fulfills the requirement to select an engagement in each level of service outlined in paragraph .104a of the standards. However, since every person in the firm responsible for the issuance of financial statements must have an engagement selected, one of Partner E's preparation engagements should be selected. Since the requirement to select an engagement with disclosures and an engagement that omits substantially all disclosures has been met (through the selection of engagements performed by the other partners) any preparation engagement performed by Partner E may be selected.



Example 6 – Using the same facts described in Example 5, if Partner E also performed a review engagement and a compilation engagement that omits substantially all disclosures, either the review engagement or the compilation engagement should be selected. The reviewer should not select any of Partner E’s preparation engagements unless one of the requirements listed in paragraph .104 of the Standards cannot otherwise be met.

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

DRAFT

Number	Respondent	Summarized Response	Agrees
1	Kansas Society of CPAs	Agreed with the ED's position.	Yes
2	NC State Board of CPA Examiners	Agreed with the ED's position. Current NC Board statutes would not require Preparation SSARS to be included in the scope of Peer Review the Board does not intend to change their statutes to include them.	Yes
3	Robert G. Yingling	Mr. Yingling disagrees with the proposal in the ED as 1) the public will still place reliance on accountant's work despite it being a non-attest service; 2) the peer reviewer would be able to perform some procedures regarding the basis of accounting used in the financial statements.	No
4	Oregon Society of CPAs Peer Review Committee	The Committee from Oregon disagrees with the proposal in the ED due to concerns regarding the public interest. The public may not be able to distinguish a preparation non-attest engagement from a compilation attest engagement. Additionally, the peer reviewer would be able to perform some procedures regarding the basis of accounting used for the financial statements.	No
5	Robert B Fisher	Agreed with the ED's position.	Yes
6	Jerry K Lee	Agreed with the ED's position.	Yes
7	Indiana Society of CPAs Peer Review Committee	The Peer Review Committee from Indiana disagrees with the proposal in the ED for several reasons. The Committee believes this approach is inconsistent with how other engagements (particularly compilations) are treated. Additionally, the Committee believes omitting these engagements from the scope of Peer Review would be a disservice to the public.	No
8	NASBA	NASBA is concerned that the changes proposed in the exposure draft will create issues under firm mobility where a firm whose permit is issued by a state that does not require a peer review for a preparation service may wish to practice in a jurisdiction that does require such a peer review. NASBA is aware of nine jurisdictions that require peer review of management use only compilation engagements and other states are currently reviewing their peer review requirements.	No
9	Kentucky State Board of Accountancy	The State Board of Kentucky adopted in whole the response submitted by the Oregon Society Peer Review Committee	No
10	Ohio Society of CPAs Peer Review Committee	The committee feels that if preparation standards are part of the professional standards they should in fact be covered by the peer review process.	No
11	Florida Institute of CPAs Peer Review Committee	The Committee does not agree with the position to exclude preparation services from the scope of peer review.	No
12	Washington Society of CPAs Peer Review Committee	The Committee believes that it would be in the interests of AICPA members and the public to include the preparation service in the scope of peer review.	No
13	New Hampshire Board of Accountancy	The New Hampshire Board of Accountancy believes the public would be better served with preparation engagements included in the scope of a peer review	No
14	Advanced Auditing Class at the Hunter College Graduate Program	The respondents agreed with the proposal, however, concerns remain that engagements not subject to peer review run the risk of being misstated.	Yes
15	Connecticut Society of CPAs Peer Review Committee	While the committee is generally in agreement with the proposal, they did state that they don't believe the proposed changes would improve or maintain overall quality of financial statements, if that is the purpose of the peer review process.	Yes
16	Illinois CPA Society Peer Review Report Acceptance Committee	The Committee agrees with the proposal to exclude preparation engagements from scope of the program. The Committee would like the PRB to comment or issue guidance on the peer review implications of issuing a management use only compilation engagement after December 15, 2015.	Yes

17	Accounting Principles and Auditing Procedures Committee of the Massachusetts Society of CPAs	The Committee is of the view that putting this exclusion in place is not an enhancement to the peer review of the compilation standards and thus the committee feels strongly that the proposed standard in the Exposure Draft will not be in the best interest of the accounting profession.	No
18	PCPS Technical Issues Committee	The Committee agrees with the proposal as they agree with the Board's conclusion that financial statement users may inappropriately place reliance on the financial statements prepared by the accountant if they were subject to peer review.	Yes

## Peer Reviewer Performance, Disagreements and Qualifications

### Why is this on the Agenda?

On January 30, 2014, the Peer Review Board (the Board) approved an aggressive plan to enhance the quality of peer review. The plan calls for substantive changes to the Peer Review Program that could move the audit quality needle in the near term.

One of the primary areas of focus under the plan is peer reviewer quality. For the peer review program to be effective, reviewers must have the necessary experience and expertise to effectively identify deficiencies at the reviewed firm and recommend appropriate remedial actions. Unfortunately, based on oversight results and feedback the Board has received from various stakeholders, some peer reviewers lack the necessary experience and expertise to perform high-quality peer reviews. While those reviewers are in the minority, the poor performance of a few could serve to undermine the credibility of the program as a whole.

The Board instructed Staff to form a task force to:

- Revisit the reviewer performance guidance to expedite the remediation and removal of reviewers with performance issues
- Develop enhanced reviewer qualifications and training programs for specialized industries

After the January Board meeting, the Peer Reviewer Quality Task Force (PRQTF) was formed and has since met numerous times to consider these requests. The PRQTF has representation from a number of interest groups within the peer review community including peer reviewers, technical reviewers, peer review committee members, administrators and state society CEOs. The exposure draft at Agenda Item 1.4A reflects their recommendations after consideration by AICPA legal counsel and the Standards Task Force. Detailed guidance, including revisions to the Report Acceptance Body Handbook, will be presented for approval at a later date.

### Feedback Received

The recommendations of the PRQTF appeared at a high level in the Enhancing Audit Quality Discussion Paper which was released for comment by the AICPA on August 7. The paper was also discussed during the “Exchange of Ideas” session of the peer review conference.

The majority of respondents to the paper were in favor of removing poor performing reviewers from the pool more expeditiously, with some respondents expressing concern about the impact on the reviewer pool. Responses from peer review conference participants were consistent, with limited response from either group to questions regarding reviewer qualifications and training for specialized industries.

Staff reached out to the Administrators Advisory Task Force and Technical Reviewers Advisory Task Force for input when the revised guidance was still in draft form. We received some excellent suggestions which were incorporated into the guidance before its final presentation to the PRQTF and its approval by the Standards Task Force.

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### **PRISM Impact**

The guidance in the exposure draft will have a PRISM impact. Staff has discussed implementation strategies with the AICPA PRISM team and the effective date below was proposed giving consideration to PRISM programming requirements.

### **AE Impact**

The recommended guidance will impact the way administering entities schedule reviews, in that reviewers will be required to meet additional requirements before they can be approved to review must-select engagements.

The guidance envisions a new process for handling disagreements whereby a panel of the PRC to is required to reach a resolution on the disagreement (not required today), appeals to the full PRC will be eliminated, and any appeals to the national level will go to an ad hoc committee which will focus on whether the Program's fair procedures were followed and applied appropriately by the panel.

Finally, the guidance significantly impacts the handling of reviewer performance matters, such that a reviewer may be removed from the reviewer pool in 90 days compared to 330 under the current system. Most details regarding the changes to reviewer performance appear in Agenda Item 1.4A.

### **Communications Plan**

Staff will issue the Peer Review Alert that appears at Agenda Item 1.4B upon PRB approval . 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)**

If the proposals in the exposure draft are approved, the guidance would be included in the January 2016 manual.

### **Effective Date**

The Exposure Draft proposes that the guidance be effective for reviews commencing on or after May 1, 2016.

### **Board Consideration**

Discuss and approve Agenda Items 1.4A and 1.4B.

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# **EXPOSURE DRAFT**

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

### **Peer Reviewer Performance, Disagreements and Qualifications**

**November 18, 2014**

**Comments are requested by January 2, 2015**

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

**Comments should be received by January 2, 2015 and addressed to  
Carl Mayes, Senior Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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November 18, 2014

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

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Carl Mayes, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after February 2, 2015 for a period of one year.

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

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

Sincerely,

A handwritten signature in black ink that reads "Anita Ford".

Anita Ford  
Chair  
AICPA Peer Review Board

**AICPA Peer Review Board  
2014 – 2015**

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

Michael McNichols  
Thomas Parry\*  
Andrew Pope\*  
Thad Porch  
Robert Rohweder\*  
Keith Rowden  
Todd Shapiro  
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Thomas Whittle III

*\*Member—Standards Task Force*

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

Jerry Cross

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Susan S. Coffey  
Senior Vice President  
Public Practice and Global Alliances

James Brackens, Jr.  
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Technical Director  
AICPA Peer Review Program

Susan Lieberum  
Senior Technical Manager  
AICPA Peer Review Program

Frances McClintock  
Senior Technical Manager  
AICPA Peer Review Program

Carl Mayes  
Senior Technical Manager  
Public Practice and Global Alliances

# Explanatory Memorandum

## Introduction

This memorandum provides background to the proposed changes to the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes would create enhanced qualifications and training requirements for reviewers of must-select engagements, expedite the process of remediation and removal for reviewers with performance issues, and improve consistency in the application of peer reviewer performance guidance.

## Background

### Enhanced Reviewer Qualifications

The Board has considered concerns raised by various stakeholders regarding the qualifications which reviewers are required to meet in order to review engagements that must be selected in a System Review under paragraph .63 of the Standards (must-select engagements).

The Board is proposing revisions to the Standards and related interpretations which would create enhanced qualifications and training requirements for reviewers of must-select engagements. The new guidance requires reviewers of must-select engagements to have taken current, high-quality training in the must-select industry they review; currently perform or review engagements in the must-select industry; and be practicing in an AICPA Audit Quality Center (AQC) member firm, if an Audit Quality Center serves the must-select industry<sup>1</sup>.

### Expediting Remediation and Removal of Reviewers

The Board has considered concerns raised by the peer review community and stakeholders that the current process for remediating and removing reviewers is too cumbersome and should be expedited.

The Board is recommending revisions to the Standards that would significantly reduce the amount of time a poorly performing reviewer could go before being required to complete remediation or being removed from the list of qualified reviewers. The Board is also recommending revisions to the Standards that would expedite the disagreement process. A comparison of the current and proposed processes are detailed in Exhibit A.

### Improving Consistency

Through oversights and feedback from the peer review community, the Board has noted an opportunity to improve consistency in the handling of reviewer performance matters.

To promote consistency, the Board is recommending revisions that would:

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<sup>1</sup> The requirement to be practicing in an AICPA AQC member firm is supported by historical peer review data which indicates that, when compared to AQC member firms, non-AQC member firms are at least two times more likely to have performed a materially non-conforming engagement in the areas supported by the AQC.

- Create the terms “reviewer performance deficiencies” and “significant reviewer performance deficiencies” to be applied when determining what actions should be taken when certain reviewer performance issues arise. See Exhibit A for more information about these terms.
- Make reviewer remediation and referral to the Board for removal presumptively mandatory in certain circumstances.
- Require remedial actions to be ratified nationally whenever they are imposed on a reviewer.
- Require any reviewer appeals when a deficiency letter is issued to come directly to a hearing panel formed by the Board (rather than to a panel formed by the AE peer review committee).

## **Other Potential Changes**

The Board will explore other potential changes to Chapter 8 of the Report Acceptance Body (RAB) Handbook to promote consistency and reduce the time between the occurrence of a reviewer’s performance issue and the performance of remediation or the removal of the reviewer. Examples of changes being explored appear in Exhibit A.

## **Comment Period**

The comment period for this exposure draft ends on January 2, 2015.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA’s website after February 2, 2015, for a period of one year.

## **Explanation of Proposed Changes**

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

The proposal includes the creation of the following *Standards*:

- Paragraph .153 to incorporate the hearing process for reviewer removal into the Standards, to provide the board with the authority to hold a reviewer performance hearing with or without committee recommendation, and to describe the process for reviewers to follow when they seek to appeal

The proposed changes would revise:

- Paragraph .31 to create a requirement that reviewers of must-select engagements possess specific additional qualifications and to clarify the meaning of paragraph .31(e)
- Paragraphs .93 and .116 to expedite the disagreement process
- Paragraph .148 to introduce the terms “reviewer performance deficiency” and “significant reviewer performance deficiency”, to make reviewer remediation presumptively mandatory<sup>2</sup> in certain circumstances and to make consideration of removal presumptively mandatory when significant reviewer performance deficiencies are noted
- Paragraph .149 to require ratification of all corrective actions nationwide

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<sup>2</sup> For a definition of presumptively mandatory, refer to QC sec. 10 paragraph .08.

- Paragraph .150 to clarify that conditions imposed on a reviewer will apply (not will “generally” apply) to the individual’s service as a team captain, review captain, team member or QCM reviewer
- Paragraph .151 to change it to paragraph .152 and to make referral to the Board for removal presumptively mandatory when the reviewer fails to correct reviewer performance deficiencies after undergoing corrective action or commits egregious acts. Egregious acts are defined in RAB Handbook Chapter 8.
- Paragraph .152 to change it to paragraph .151 and to eliminate the concept that corrective actions can only initially be appealed to the committee that imposed the action, as such appeals would now go directly to the Board

## Revisions to Interpretations

The proposal also includes the creation of the following interpretations:

- Interpretation 31(g)-1 and 31(g)-2 to require reviewers of must-select engagements to
  - Complete additional training meeting the requirements of the Board;
  - Be presently involved in supervising or performing engagements in the must-select industry; and
  - Be associated with a firm that is a member of an Audit Quality Center, if an Audit Quality Center serves the must-select industry

The proposed changes would revise:

- Interpretation 149-1, which will be eliminated in light of the guidance revisions being proposed in paragraph .149
- Interpretation 151-1 to conform to the changes proposed in paragraph .151

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

## Guide for Respondents

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 Carl Mayes, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

## Effective Date

Revisions to the *Standards* and *Interpretations* adopted as final by the Peer Review Board will be effective for reviews commencing on or after May 1, 2016.

# Proposed Revisions

## Peer Review Standards

### 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>3, 4</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).
- 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*<sup>5</sup> for its most recent System or Engagement Review that was accepted timely, ordinarily within the last three years and six months.<sup>6</sup>
- 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

<sup>3</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 supervising 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 supervising or performing the same type of engagements in their firm. A reviewer of engagements with disclosures should also be currently reviewing supervising or performing engagements with disclosures in their firm. A reviewer that only currently reviews supervises or performs compilations may not perform an engagement review of a firm with reviews or SSAE engagements~~

<sup>4</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>5</sup> ~~A peer review report with a rating of *pass* was previously referred to as an unmodified report (with or without a letter of comments). If a firm’s most recent peer review rating was a *pass with deficiencies* or *fail*, the firm’s members are not eligible to perform peer reviews.~~

<sup>6</sup> ~~If a firm’s most recent review was a report review, then the firm’s members are not eligible to perform peer reviews.~~

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).

- e. Have spent the last five years ~~at least five years of recent experience~~ in the practice of public accounting in the accounting or auditing function.<sup>7</sup>
- 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).

- hg. 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.

### Team Captain or Review Captain

.32 In addition to adhering to the ~~general~~ requirements in paragraph .31(a) – (f) to be a peer reviewer, a System Review team captain must be a partner.<sup>8</sup> For an Engagement Review, the review captain is not required to be a partner. The team captain, or the review captain in limited circumstances, is required to ensure that all team members possess the necessary capabilities and competencies to perform assigned responsibilities and that team members are adequately supervised. The team captain or review captain has the ultimate responsibility for the review, including the work performed by team members (see interpretations).

.33 Also, team captains and review captains should have completed peer review training that meets the requirements established by the board (see interpretations). For additional team captain qualification requirements, see the interpretations.

### 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 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).

.35 If required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas may assist the review team in a consulting capacity (see interpretations). For example, computer specialists, statistical sampling specialists, actuaries, or experts in continuing professional education (CPE) may participate in certain segments of the review.

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<sup>7</sup> For this purpose, ~~recent~~ means having experience within the last five years in the industries and related levels of service for which engagements are reviewed. However, a reviewer should be cautious of those high-risk engagements or industries in which new standards 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 in order to have *recent* experience.

<sup>8</sup> If the peer reviewer's firm's (see paragraph 31c) most recent peer review was an Engagement or Report Review, then the peer reviewer is not eligible to be a System Review team captain.

## Performing System Reviews

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

.93 Disagreements may arise during attempts to resolve on the resolution of various issues, for instance, related to the review of particular engagements, the systemic cause of 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 and/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 during 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 a panel of the administering entity's peer review committee members resolve the disagreement. The panel must reach a decision to resolve the disagreement. Any of the disagreeing parties may request an appeal by writing the board and explaining why he or she believes a review of the hearing panel's decision is warranted. A panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established. ~~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.~~

## Performing Engagement Reviews

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

.116 Disagreements may arise during attempts to resolve on the resolution of various issues. For instance, there could be a disagreement on the appropriate approach to performing and/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 during 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 a panel of the administering entity's peer review committee members resolve the disagreement. The panel must reach a decision to resolve the disagreement. Any of the disagreeing parties may request an appeal by writing the board and explaining why he or she believes a review of the hearing panel's decision is warranted. A panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established. ~~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.~~



## Peer Reviewers' Performance and Cooperation

.147 A team captain, review captain, or reviewer (hereinafter, reviewer) has a responsibility to perform a review in a timely, professional manner. This relates not only to the initial submission of the report and materials on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing any omitted documentation of the work performed on the review and resolving questions raised by the committee or technical reviewer accepting the review as well as the board and AICPA staff.

.148 In considering peer review documents for acceptance, the committee evaluates the reviewer's performance on the peer review. In addition to the committee's evaluation, the board and AICPA staff also evaluate and track reviewers' performance on peer reviews. If a pattern of reviewer performance deficiencies by a particular reviewer is noted, then the board or committee should require the reviewer to complete one or more corrective actions. 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. ~~serious weaknesses in the reviewer's performance are noted on a particular review, or if a pattern of poor performance by a particular reviewer is noted, then the board or committee, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer.~~

.149 In situations in which one or more of such actions are required ~~is imposed~~, the administering entity must inform AICPA staff and such actions will ~~will inform the board and may request that the board ratify the action(s) to be recognized by all~~ other administering entities.

.150 Any condition imposed on or action required of a reviewer will ~~generally~~ apply to the individual's participation in the performance of any peer review ~~service as a team captain, review captain, team member, or QCM reviewer unless the condition is specific to the individual's service as only a team captain, review captain, team member, or QCM reviewer,~~ respectively.

.151 If the reviewer disagrees with the corrective action(s) required by the committee or board, he or she may appeal the decision by writing the board and explaining why he or she believes that the action(s) are unwarranted. A hearing panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established.

~~.151~~**152** If a reviewer fails to correct reviewer performance deficiencies after a corrective action has been required or has committed egregious acts in the performance of a peer review, the committee should recommend to the board that the reviewer be prohibited from performing peer reviews in the future. ~~If a reviewer refuses to cooperate with the committee or board, fails to revise peer review documents as requested by the committee or board, fails to correct the poor performance, or is found to be deficient in his or her performance, and education or other corrective or monitoring actions are not considered adequate to correct the poor performance, the committee may recommend to the board that the reviewer be prohibited from performing peer reviews in the future. In such situations imposed by a committee, the board shall appoint a hearing panel to consider ratifying the action(s) taken by the committee for the reviewer's name to be removed from the list of qualified reviewers or if some other action should be taken. The board may decide, with or without committee recommendation pursuant to fair procedures that it has established, to consider whether the reviewer should be prohibited from performing peer reviews or whether some other action should be taken.~~

.153 When a committee recommends that a reviewer should be prohibited from performing peer reviews in the future, the board shall appoint a hearing panel to consider, pursuant to fair procedures that it has established, whether the reviewer should be removed from the list of

qualified reviewers or whether some other action should be taken. The board may appoint such a hearing panel without a committee recommendation. If the reviewer disagrees with the decision of the panel, he or she may appeal the decision by writing the board and explaining why he or she believes removal from the list of qualified reviewers is unwarranted. The board will take further action pursuant to fair procedures that it has established.

~~.152 Corrective or other action(s) can only initially be appealed to the committee that imposed the action(s). For actions previously appealed to the committee or imposed or ratified by the board, if the reviewer disagrees with the corrective action(s), he or she may appeal the decision by writing the board and explaining why he or she believes that the action(s) are unwarranted. The board will review and consider the request upon its receipt.~~

**.153.154** If a reviewer has a corrective or other action(s) imposed on him or her by the committee or board, and the reviewer had previously been approved to perform a peer review that has either begun or has yet to begin, then the committee or board will need to consider whether the review should be performed by another reviewer, or if the review should be overseen by a member of the committee at the reviewer's expense, or other actions, if any (whether or not the reviewer has filed an appeal with the committee or board). If the reviewer has completed the fieldwork on one or more peer reviews prior to the imposition of the corrective action, then the committee or board will consider what action, if any, to take regarding those peer reviews based on the facts and circumstances.

## Peer Review Standards Interpretations

### Qualifying for Service as a Peer Reviewer

**31g-1** *Question*—Paragraph .31(g) of the standards states that reviewers must possess specific additional qualifications to review engagements that must be selected in a System Review under paragraph .63. What additional qualifications must the reviewer possess?

*Interpretation*—The additional qualifications that reviewers must possess in order to review must-select engagements are

- a. The reviewer should have completed additional training focused on must-select engagements that meets the requirements of the board. Peer review training and criteria for demonstrating proficiency in the standards, interpretations and guidance of the program is established by the board. Those criteria are located on the Peer Review page of the AICPA website.
- b. The reviewer must be currently (presently involved in) supervising or performing engagements, in his or her own firm, in the must-select industry or area; or carrying out reviews of engagements in the must-select industry or area in his or her own firm as part of the firm's monitoring or inspection process and currently meeting relevant, industry specific educational requirements, as applicable.
- c. Where AICPA Audit Quality Centers exist (such as, but not limited to, the Employee Benefit Plan and Government Audit Quality Centers), reviewers of must-select engagements must be associated with firms that are members of the respective Audit Quality Center.

**31g-2** *Question*—Are there any exceptions to the additional training requirements described in 31g-1?

*Interpretation*—Ordinarily, the must-select training courses developed and issued by the board are to be used to meet the requirements to review must-select engagements. However, reviewers may undergo training which includes the same elements as, and is as comprehensive as, the must-select training required by the board.

### Peer Reviewers' Performance and Cooperation

~~**149-1** *Question*—When one or more corrective actions are imposed on a reviewer, the administering entity will inform the board and may request that the board ratify the action(s) to be recognized by other administering entities. When can these actions be imposed by other administering entities without board ratification?~~

~~*Interpretation*—When the reviewer is notified of performance issues through deficiency letters, corrective actions or restrictions placed upon the reviewer. For reviewers who perform reviews in multiple administering entities, any corrective action or restriction included in a deficiency letter should be considered by other administering entities regarding whether they want to enforce the action or restriction on all or some reviews performed by the reviewer in their jurisdiction.~~

**151-1** *Question*—When the board or committee requires the reviewer to comply with such corrective actions and the reviewer fails to correct the reviewer performance

deficiencies, poor performance or refuses to cooperate, what procedures should be followed?

*Interpretation—* After being provided an opportunity to improve performance, if the prescribed actions do not result in the required performance improvements, the committee or board should refer the reviewer to a hearing panel to determine whether the reviewer should be removed from the list of qualified reviewers or whether some other action should be taken. ~~The committee or board must assess if the reviewer is making a reasonable effort to improve performance. After being provided reasonable time to improve performance, if the prescribed actions are not resulting in the necessary performance improvements, the committee or board may determine that the reviewer's action warrant board consideration. If a reviewer is referred to the board, the board will consider whether the reviewer should be prohibited from performing reviews or whether some other action should be taken.~~

# Exhibit A

## Peer Reviewer Performance, Disagreements and Qualifications: Additional Background

### Expediting Remediation and Removal of Reviewers

To illustrate the differences between the current and proposed processes for remediation and removal, assume:

- A reviewer performs one review per month
- Significant performance issues, such as failures to identify engagements which were not performed in conformity with applicable professional standards in all material respects, occur on each review and are identified by the administering entity
- There are no delays in processing the reviewer's remediation or removal

### Current Process

The following process is reflective of the guidance appearing in Chapter 8 of the Report Acceptance Body Handbook.

STEP	DESCRIPTION	DAYS SINCE LAST STEP
1	Feedback form	-
2	Monitoring letter	30
3	Deficiency letter	120
	<b>Time until remediation</b>	<b>150</b>
4	Removal letter	120
5	Hearing panel decision	60
	<b>Time until removal</b>	<b>330</b>

Step 1 – The RAB issues a feedback form citing significant reviewer performance deficiencies.

Step 2 – The RAB considers the reviewer's next review 30 days later and a second significant reviewer performance deficiency is noted. The RAB issues a monitoring letter, which does not require remedial action but notifies the reviewer that improvements in their performance are required.

Step 3 – The RAB cannot issue a deficiency letter until they are presented with a review that the reviewer submitted to the administering entity after the date of the monitoring letter. Because the administering entity has 120 days to present a review to the RAB after it is submitted, this means 120 days may pass before the RAB can issue a deficiency letter, even if the RAB notes additional significant reviewer performance deficiencies in the interim period.

Step 4 – Consistent with Step 3, a removal letter cannot be issued until they are presented with a review that the reviewer submitted to the administering entity after the date of the monitoring letter. Because the administering entity has 120 days to present a review to the RAB after it is

submitted, this means 120 days may pass before the RAB can issue a deficiency letter, even if the RAB notes additional significant performance deficiencies in the interim period.

Step 5 – After the removal letter is sent to the Board, the Board will convene a hearing panel within 60 days. The decision of the hearing panel is effective immediately. If the panel concludes that a reviewer should be removed from the list of qualified reviewers, the reviewer may not schedule or perform reviews from that date forward. While the reviewer may appeal, the panel's decision remains in effect during the appeal process.

### Proposed Process

STEP	DESCRIPTION	DAYS SINCE LAST STEP
1a	Feedback form	-
2a	Deficiency letter	30
	<b>Time until remediation</b>	<b>30</b>
1b	Feedback form	-
2b	Removal letter	30
3	Hearing panel decision	60
	<b>Time until removal</b>	<b>90</b>

Step 1a and 1b – The RAB issues a feedback form citing significant performance deficiencies.

Step 2a and 2b – The RAB considers the reviewer's next review 30 days later. If two significant reviewer performance deficiencies are noted, the RAB should take action to either remediate or remove the reviewer. If the RAB determines remediation is most appropriate, a deficiency letter will be issued requiring the reviewer to undergo certain corrective actions. If the RAB determines removal is most appropriate, a removal letter will be issued to the Board.

Step 3 – If a removal letter is sent to the Board, the Board will convene a hearing panel within 60 days. The decision of the hearing panel is effective immediately. If the panel concludes that a reviewer should be removed from the list of qualified reviewers, the reviewer may not schedule or perform reviews from that date forward. Administering entities should refer to paragraph .153 of the Standards along with the associated supplemental guidance in the Report Acceptance Body Handbook to address reviews that have commenced. While the reviewer may appeal, the panel's decision remains in effect during the appeal process.

### Current and Proposed Processes for Disagreements

The current disagreement process appearing in Chapter 7 of the Report Acceptance Body Handbook includes four primary steps:

1. Administering entity attempts to resolve the disagreement through technical reviewer involvement and/or oversight
2. If the disagreement cannot be resolved, a panel of the AE's Peer Review Committee (PRC) considers the disagreement
3. If the panel cannot come to a decision, the AE's full PRC considers the disagreement
4. If the PRC is unable to resolve the disagreement, a panel of the Board considers the matter and reaches a final decision

The proposed guidance would require the panel of the PRC to come to a decision; eliminate step 3; and, in lieu of step 4, allow the disagreeing parties to appeal to a national ad hoc committee. The ad hoc committee's principal focus would be on the whether the Program's fair procedures were followed and applied appropriately by the AE panel.

## **Improving Consistency**

The Board will propose revisions to the RAB Handbook whereby virtually all reviewer performance issues will be classified as either "reviewer performance deficiencies" or "significant reviewer performance deficiencies" on a reviewer feedback form. This includes suspensions for failure to submit materials timely or to maintain eligibility to perform peer reviews. The examples which will appear in the RAB Handbook will define the terms. The examples the Board expects to include are as follows:

### **Significant Reviewer Performance Deficiencies**

- 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. (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 had not previously elevated the matter to a finding, or the committee determined a significant deficiency was present when the reviewer had not previously elevated the matter to a deficiency.

### **Reviewer Performance Deficiencies**

- 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 restriction of the reviewer's ability to schedule and perform reviews. (standards sec. 1000 par. .31 and .34)
- Planning: The reviewer did not
  - obtain approval of the review team prior to the planning and commencement of the peer review (standards sec. 1000 par. .30)
  - obtain an 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, with a significant difference 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 the review working papers were submitted to the administering entity. (standards sec. 1000 par. .49–.50)

- Engagement Selection and Review: The reviewer 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)
  - properly select the “surprise” engagement and did not provide sufficient documentation of reasoning for selection. (standards sec. 1000 par. .61)
- Assessment and Disposition of Matters: The reviewer did not
  - identify matters, findings, deficiencies, or significant deficiencies appropriately but responded timely to requested revisions. (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 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. (System Reviews sec. 4960; Engagement Reviews sec. 6600)
  - properly identify a repeat finding. (Interpretation 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 a repeat deficiency. (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)
- Completion and Submission of Workpapers: The reviewer did not
  - comprehensively complete peer review documentation, or the documentation 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 66-1)



- Other departures from *Standards for Performing and Reporting on Peer Reviews* or other authoritative program guidance.

## Other Potential Changes

In addition to the changes to *Standards* and Interpretations appearing in these materials, the Board will explore other potential changes to Chapter 8 of the RAB Handbook to promote consistency and reduce the time between when a reviewer's performance issues occur and when remediation or removal is required. These are expected to include:

- Requiring a feedback form to be issued when one of the reviewer performance deficiencies on the form is noted during an oversight, technical review or the RAB acceptance process
- Define the period over which reviewer performance deficiencies will be considered
- Requiring administering entities to upload all feedback forms to a web-based platform
- Developing a clear process whereby a designee of the Board (for example, the Oversight Task Force), after discussing the matter with administering entities, could issue a deficiency letter or removal letter
- Defining "a pattern of reviewer performance deficiencies" (described in the proposed paragraph .148)
- Developing a process for reviewer reinstatement such that three years after a reviewer has been removed from the list of qualified reviewers, they may petition for reinstatement
- When a reviewer self-identifies performance issues evident on reviews that have been submitted to an administering entity but not yet been subject to technical review, allowing for that reviewer to address the issues without receiving feedback.
- When a reviewer appeals a corrective or other action, requiring the reviewer to comply with the decision of the appeal panel within a certain period of time or be removed from the list of qualified reviewers

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## Agenda Item 1.4B

### Exposure Draft: Peer Reviewer Performance, Disagreements and Qualifications

The Peer Review Board has issued an Exposure Draft <link> that proposes revisions to Standards and related interpretations designed to expedite remediation and removal of poor performing reviewers, improve consistency in the handling of reviewer performance matters and enhance reviewer qualifications and training requirements for reviewers of must-select engagements.

Comments and responses should be sent to Carl Mayes, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

The Board will consider the proposed changes and the comments received during open session on January 27, 2015. The proposed changes, if approved, will be effective for peer reviews commencing on or after May 1, 2016.



## Peer Review Program