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AICPA[®]

Peer Review
Program

**QUESTIONS AND ANSWERS ABOUT
THE AICPA PEER REVIEW PROGRAM**

PREPARING FOR THE REVIEW

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PREPARING FOR THE REVIEW

How should I prepare for my review?

In accordance with Statements on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control*, all firms must establish and maintain appropriate quality control policies and procedures and comply with those policies and procedures to ensure the quality of the services they provide to the public. Several publications are available from the AICPA such as the *Standards*, the AICPA Peer Review Program Manual, and the Practice Aids for Establishing and Maintaining a System of Quality Control for a Firm's Accounting and Auditing Practice.

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When should my firm's peer review be finished?

Your firm's peer review should be finished by its due date. The firm's due date is reflected:

- On the letter acknowledging your firm's original enrollment in the Program, or
- In the committee acceptance letter related to your firm's last peer review.

The due date is the date by which peer review documents, including the report and if applicable, the letter of response, should be submitted to the AE. To make sure your peer review is completed on time, you should start the review soon after your firm's peer review year-end. You should plan ahead so that the review takes place at a convenient time for your firm and to allow your reviewer time to properly plan and schedule your review. For example, if you have a heavy tax practice and your review due date falls between January and April, you should plan to start the review in September or October to make sure the review is completed before your busy season begins.

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What if my firm cannot finish its review by the due date?

If your firm cannot complete its review by the due date, please request an extension in PRIMA before the due date. Extensions requested after your review's due date will likely not be granted. If possible, extensions should be requested at least 60 days before the due date. However, it is plausible that extensions may be needed due to unforeseen circumstances within 60 days of the due date. Your explanation to the AE should explain why your firm cannot complete its review on time and offer an alternative due date for the review. The AE considers extension requests on a case-by-case basis. Extensions are not granted simply because a firm believes it needs more time to prepare for the review. Extensions of a review date by more than three months are rare.

In certain circumstances extension requests for due dates may be granted by the AEs, however, the extensions may not be recognized by your state board of accountancy or

other regulators. *Government Auditing Standards* require a firm to have an external quality control review every three years. This three-year period begins with the date your firm starts fieldwork on its first engagement under *GAO Standards*. Subsequent reviews under *GAO Standards* should be completed within three years after the issuance of the prior peer review report. If your firm performs governmental audits, don't forget to take these requirements and potential changes into account when you request an extension of your firm's due date. The GAO and SBOAs are not required to recognize extensions granted by the AICPA.

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What if my firm's peer review documents are not submitted to the administering entity by the due date?

If the peer review is not completed or documents are not submitted to the AE by the firm's due date (including any approved extensions), the firm will receive notifications about the overdue documents. If the overdue documents are not received after a specified time, the AE may recommend to the PRB that a hearing be held to determine whether a firm should be terminated from the Program for failure to cooperate with the AE. If the firm has cooperated in the completion of the peer review, and the delay is caused by the reviewer, the firm should communicate this matter to the AE so that appropriate actions can be taken with regard to the reviewer.

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What period should my firm's peer review cover?

The peer review covers a one-year period mutually agreed upon by you and the reviewer and normally should not change from review to review. Engagements selected for review in a System Review would generally be those with periods ending during the year under review, except financial forecasts or projections and agreed upon procedures. Financial forecasts and/or projections and agreed upon procedures with report dates during the year under review would be subject to selection. If the current years' selected engagement is not completed and a comparable engagement within the peer review year is not available, the prior years' engagement will likely be reviewed. If the subsequent years' engagement has been completed, the peer review team will consider, based on its assessment of peer review risk, whether the more recently completed engagement should be reviewed instead.

The criteria for selecting the peer review year-end and the period to be covered by Engagement Reviews are the same as those for a System Review.

It is generally anticipated that a firm will keep the same peer review year-end from review to review. If the prior peer review year-end was not the most convenient for firm personnel or the most natural year-end for your firm's practice, send a request to your AE (via PRIMA) that you be allowed a permanent change to a year-end that is more natural for your firm. Your submission should describe the reasons for your request.

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What if my client does not want their financial information reviewed by the peer reviewer?

Firms may have legitimate reasons for excluding an engagement from the scope of peer reviewers. The following explanations are reasonable for excluding an engagement from selection in the peer review (this is not intended to be an all-inclusive list):

1. The engagement is subject to litigation.
2. The client will not permit the firm to make the engagement available.

In these situations, the reviewed firm should submit a written statement to the AE prior to commencement of the review, indicating a) it plans to exclude an engagement(s) from the peer review selection process, b) the reasons for the exclusion and c) it is requesting a waiver from a scope limitation in the peer review report. The AE must decide if the reviewed firms request to exclude an engagement is reasonable and whether the firm should receive an exemption from the scope limitation.

The PRB has agreed that the following explanations are **unacceptable** reasons for excluding an engagement from selection in the peer review (this is not intended to be an all-inclusive list):

1. The engagement working papers are in a warehouse.
2. The firm no longer performs the audit for that client (and still has access to the documentation).
3. The firm decided to no longer perform audits.
4. The engagement was selected during the last peer review.
5. The partner on that engagement will not be available when the review is scheduled.
6. The firm no longer performs engagements in that industry.

If the AE concludes that there is not a legitimate reason for the requested exclusion and the firm continues to insist on the exclusion, it should be evaluated whether this is a matter of noncooperation.

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What is a scope limitation?

There is a presumption that all engagements and other supporting documentation (for example, CPE records) subject to peer review will be included in the scope of the review. In rare situations a reviewed firm may have legitimate reasons for excluding certain engagements or other supporting documentation, for example when an engagement or an employee's personnel records are subject to pending litigation.

In these situations, an AE may conclude that scope has been limited due to circumstances beyond the firm's control and the review team cannot accomplish the objectives of those procedures through alternate procedures, thus precluding the application of one or more peer review procedure(s) considered necessary in the circumstances. For example, ordinarily, the team would be unable to apply alternate procedures if:

- the firm's only engagement in an industry that must be selected is unavailable for review and there isn't an earlier issued engagement that may be able to replace it,
- a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began.

In these circumstances, the team captain or review captain should consider issuing a report with a peer review rating of pass (with a scope limitation), pass with deficiency (with a scope limitation), or fail (with a scope limitation), as applicable.

The existence of a scope limitation in and of itself does not result in a report with a peer review rating of pass with deficiencies or fail; it is in addition to the grade that was determined to be issued (which is why it is possible to have a report with a grade of pass (with a scope limitation)).

The following explanations are examples of **unacceptable** reasons for excluding an engagement from selection in the peer review:

1. The engagement working papers are in a warehouse.
2. The firm no longer performs the audit for that client (but still has access to the documentation).
3. The firm decided to no longer perform audits.
4. The engagement was selected during the last peer review.
5. The partner on that engagement will not be available when the review is scheduled.
6. The firm no longer performs engagements in that industry.

If the AE concludes that there is not a legitimate reason for the requested exclusion and the firm continues to insist on the exclusion, it should be evaluated whether this is a matter of noncooperation.

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If my firm is enrolled in the AICPA Peer Review Program, are engagements of employee benefit plans subject to peer review?

Yes. The Employment Retirement Income Security Act of 1974 contains a requirement for annual audits of employee benefit plan financial statements by an independent qualified public accountant. These audits produce reports from the auditor that include either an opinion in accordance with the auditor's findings or a statement that an opinion cannot be expressed. These audited financial statements and auditor's reports are often incorporated in a filing with the Department of Labor (DOL) along with the Form 5500 annual report. When included in a filing with the DOL, the auditor's report is required to be prepared in accordance with auditing standards generally accepted in the United

States and to reference such standards. As these engagements would be performed under the Statement on Auditing Standards (SASs), these engagements would be subject to peer review and would require the firm to undergo a system review.

If a firm has historically undergone engagement reviews and decides to perform an audit of employee benefit plan financial statements subject to DOL filing requirements, the firm should immediately notify their AE and undergo a System Review. This System Review would normally be due 18 months from the year-end of the engagement or by the firm's next scheduled due date, whichever is earlier. If a firm has never been peer reviewed and decides to perform an audit of employee benefit plan financial statements (and is required to be enrolled in the Program), the due date for this initial peer review is ordinarily 18 months from the date the firm enrolled in the Program, or should have enrolled, whichever date is earlier.

Additionally, a firm may be deemed as failing to cooperate if they omit or misrepresent information relating to its accounting and auditing practice as defined by the *Standards*. If a firm is dropped or terminated for not accurately representing information relating to its accounting and auditing practice as defined by the *Standards*, 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*.

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When should I contact my System Review team captain and what will he or she want from me?

You should contact your team captain and begin planning the review together early enough, at least six to nine months prior to the due date, to make sure all documents will be submitted to the AE by your firm's due date. Amongst other items, the team captain will ask for the following items prior to the review:

- The firm's comprehensive quality control document as required by SQCS No. 8.
- A list of accounting and auditing engagements for all engagements with periods ending during the year under review (or report dates during the year under review for financial forecasts and/or projections and agreed upon procedures) regardless of whether the engagement reports are issued
- A description of the approach taken to ensure a complete and accurate engagement listing.
- A list of the firm's professional personnel showing name, position and years of experience with the firm and in total.
- A copy of the firm's documentation maintained since its last peer review to demonstrate compliance with the monitoring element of quality control.

Based on this information, the team captain will make a preliminary selection of the offices and engagements he or she intends to review. The initial selection of engagements to be reviewed will be provided no earlier than three weeks before the commencement of the

peer review. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed will be provided to the firm once the review commences and not provided to the firm in advance. This engagement should be the firm's highest level of service and will not increase the scope of the review.

All engagements with years ending during the peer review year (or report dates during the year under review for financial forecasts and/or projections and agreed upon procedures) that are performed and issued by the firm should be available to the team captain at the start of fieldwork.

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How should my firm prepare for a subsequent peer review?

In preparing for its next review, your firm should:

- Read the report and any findings from your firm's previous peer review. If applicable, be certain that you have taken the proposed actions outlined in your letter of response from the previous review.
- Perform and document ongoing monitoring procedures to make sure prior deficiencies have been corrected.
- Review your quality control document making sure your documented policies and procedures are appropriate based on the size, structure and nature of your firm.

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