PRP Section 2000

PEER REVIEW STANDARDS INTERPRETATIONS

Notice to Readers

Interpretations of the AICPA *Standards for Performing and Reporting on Peer Reviews* (PRPM sec. 1000) are developed in open meetings by the AICPA Peer Review Board for peer reviews of firms (and individuals) enrolled in the AICPA Peer Review Program. Interpretations need not be exposed for comment and are not the subject of public hearings. These interpretations are applicable to firms (and individuals) enrolled in the program; individuals and firms who perform and report on peer reviews; entities approved to administer the peer reviews; associations of CPA firms authorized by the board to assist its members in forming review teams; and AICPA program staff. Interpretations are effective upon issuance unless otherwise indicated.

The prefix of each interpretation refers first to the paragraph number in the standards and second to the number of the interpretation relating to that paragraph. For example, Interpretation No. 5-3 would be the third interpretation of paragraph .05 of the standards. Not every paragraph of the standards has an interpretation, and thus there could be gaps in the numbering sequence of the interpretations. If more than one paragraph of the standards refers to a particular interpretation, then the interpretation's prefix will refer to the first instance in the standards, and the interpretation would note what other paragraphs refer to the interpretation. Interpretations have been grouped by topic for reference purposes. For example, there are paragraph Interpretation Nos. 3-1 and 3-2 under the interpretation related to "Individual Enrollment in the Program."

To the extent that new interpretations are added before the next version of the standards is issued, an interpretation may not be referred to in the standards with the phrase (see interpretations).

Use of the Standards

1-1

Question — Paragraph .01 of the standards discusses that the standards are provided for CPA firms (and individuals) enrolled in the program. Who determines program enrollment eligibility and who may administer the program?

Interpretation — The AICPA Peer Review Board (board) determines program enrollment eligibility and who may administer the program. CPA firms (and individuals) may enroll in the program, regardless of AICPA membership.

There are professional organizations with peer review programs to assist government audit organizations in meeting their *Government Auditing Standards* (GAS, also known as the Yellow Book) peer review requirements. For example, the President's Council on Integrity and Efficiency peer review program arranges reviews for the Federal Inspector General; the National Association of State Auditors, Comptrollers and Treasurers (NASACT) program arranges reviews for state auditors; and the Association of Local Government Auditors (ALGA) program arranges reviews for local government auditors. Each of these programs have established their own set of standards for conducting peer reviews and should be contacted for additional information when a peer reviewer is considering performing a peer review for one of their members because these standards are not intended for those purposes.

1-2

Question — Who is currently eligible to enroll in the program, which is administered by committees of the board including but not limited to the National Peer Review Committee (National PRC), state CPA societies, or other organizations approved by the board?

Interpretation — CPA firms and, in certain circumstances, individual AICPA members and CPAs who are not members of the AICPA may enroll.

1-3

Question — What other guidance is available to those who use the standards?

Interpretation — Users of the standards have a number of other sources of guidance they can refer to, depending on their role in the program. The standards are principles based and form the foundation for more detailed guidance, encompassed in these interpretations, other guidance in the AICPA *Peer Review Program Manual* (including Supplemental Guidance and the Report Acceptance Manual), the Oversight Handbook, Administrative Manual, and Peer Review Alerts. There is no hierarchical structure to the standards, interpretations, and other guidance; guidance in each is equally significant. However, in the event of a conflict in interpreting and implementing these sources of guidance, the standards and interpretations take precedence.

Peer review course manuals, conference materials, and other miscellaneous items are also available for reference purposes.

1-4

Question — Can state CPA societies or other organizations that are approved by the board to administer the program use the standards, as applicable, to administer peer reviews of firms without AICPA members?

Interpretation — Yes, except for firms required to be registered with and subject to permanent inspection by the PCAOB or firms that perform engagements under PCAOB standards. Those firms are required to be administered by the National PRC.

Individual Enrollment in the Program

3-1

Question — AICPA bylaws require individual CPAs (not the firm) to enroll in the program if they perform compilation services in firms or organizations not eligible to enroll in such a program. To reflect this requirement, paragraphs .03 and .05 of the standards refer to “firms and individuals in the program.” What is meant by “firms or organizations not eligible to enroll,” and can any AICPA member enroll in the program as an individual?

Interpretation — Under the "Council Resolution Concerning the Form of Organization and Name Rule" (ET app. B), [fn 1] when the majority of the ownership of a firm, in terms of financial interests and voting rights, belongs to CPAs, it must enroll in the program. A firm or organization without CPA majority ownership (a non-CPA owned entity) would not be eligible to enroll in the program. The characteristics of such a firm are discussed in ET appendix B. Where the firm or organization is not eligible to enroll, such as due to a lack of majority ownership by CPAs, and where the individual AICPA member performs compilation services in the firm or organization, the AICPA member is required to enroll individually in the program. Only AICPA members meeting these criteria are able to enroll individually. Individual AICPA members who are only practicing with a firm that is eligible to enroll in the program may not enroll in the program individually. In addition, CPAs who are not members of the AICPA that perform services that fall within the scope of the program in a firm that is not eligible to enroll may enroll in the program.

3-2

Question — The standards, interpretations, and guidance materials for the program use the term *firm* throughout the materials. When an individual is appropriately enrolled in the program, how does the term *firm* apply to the enrolled individual, and are there any situations in which the standards, interpretations, or guidance materials are intended to be directed at the actual firm or organization that was not eligible to enroll?

Interpretation — As an alternative to rewriting all of the standards to reflect individual enrollment, the term *firm* as it appears in the standards should be applied to the enrolled individual and not the firm or organization in which the individual is practicing public accounting that was not eligible to enroll. Under the characteristics of a firm not eligible to enroll in the program, there must be a CPA who has ultimate responsibility for any financial statement compilation services; non-CPA owners cannot assume ultimate responsibility for any such services. In addition, any compilation report must be signed individually by a CPA and may not be signed in the name of the firm or organization.

3-3

[fn 1] All ET sections can be found in AICPA *Professional Standards*.

Question — When performing the peer review of an enrolled individual in the program, what type of peer review would be required, what peer review materials would be used, and what changes would be necessary to the peer review report?

Interpretation — As with any peer review, the types of engagements performed dictate the type of peer review required. Because the enrolled individual could only be performing compilation services, this would only require an Engagement Review, although the individual could undergo a System Review. The current peer review materials can still be used as long as the peer reviewer indicates that the peer review was that of an enrolled individual and not of a firm or organization. Similarly, the report and, if applicable, the letter of response, as well as other peer review documents and correspondences, should be tailored so that it is very clear that only the individual is being peer reviewed and not the firm or organization.

3-4

Question — If an individual enrolled in the program receives a report with a peer review rating of *pass* on his or her Engagement Review and meets all other individual qualifications for service as a peer reviewer including independence considerations, can that individual perform peer reviews?

Interpretation — Yes. However, the individual alone would be the peer reviewer and not the firm or organization that was not eligible to enroll in the program. The peer reviewer should make this fact evident.

3-5

Question — As discussed in paragraph .144 of the standards, can a hearing panel decide to terminate an individual's enrollment in the program?

Interpretation — Yes. The fair procedures related to hearings and appeals established by the board for individuals enrolled in the program would parallel the process for enrolled firms, including publication of termination in such form and manner as the AICPA Council may prescribe. If a hearing panel decides to terminate an individual's enrollment in the program, that individual can appeal pursuant to fair procedures established by the board. When the fact that an individual AICPA member's enrollment has been terminated is published, the name of the firm or organization that was not eligible to enroll in the program with which the individual was practicing is not published.

Acquisitions and Divestitures and Their Effect on Peer Review Scope

5c-1

Question — Paragraph .05*c* of the standards requires that enrolled firms have independent peer reviews of their accounting and auditing practices. What is the effect on the scope of a firm's peer review when there has been an acquisition of another practice or portion thereof, or a divestiture of a significant portion of the firm's practice, during or subsequent to the firm's peer review year?

Interpretation — When a reviewed firm has had an acquisition of another practice or a portion thereof or a divestiture of a significant portion of its practice during or subsequent to its peer review year, the

reviewer, the reviewed firm, or both, should consult with AICPA staff prior to the commencement of the review to consider the appropriate scope of the review or other actions that should be taken.

A divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance with the system of quality control for reports issued under the firm's name during that year. If the review team is able to review engagements of the divested portion of the reviewed firm's practice, then the review team should review such engagements considered necessary to obtain an appropriate scope for the peer review. In such circumstances, an appropriate scope is one where a reasonable cross section of the firm's practice is covered and the review covers all partners and significant industry areas that existed before the divestiture. The review team should carefully assess the effects the divestiture has on the scope of the peer review. A team captain or review captain who is considering whether a peer review report should be issued with an additional paragraph for a scope limitation due to a divestiture should consult with the administering entity.

Illustrations of System Review reports with a peer review rating of *pass (with a scope limitation)*, *pass with deficiencies (with a scope limitation)*, and *fail (with a scope limitation)* are presented in appendix D, *Illustration of a Report With a Peer Review Rating of* Pass (With a Scope Limitation) *in a System Review*; appendix G, *Illustration of a Report With a Peer Review Rating of* Pass With Deficiency (With a Scope Limitation) *in a System Review*; and appendix K, *Illustration of a Report With a Peer Review Rating of* Fail (With a Scope Limitation) *in a System Review*. Additional paragraphs included for scope limitations for Engagement Review reports follow the illustrations for System Reviews with scope limitations.

Resignations From the Program

5g-1

Question — Paragraph .05*g* of the standards discusses an enrolled firm's responsibility to understand the board's guidance on resignations from the program. Under what conditions may a firm resign from the program?

Interpretation — A firm whose peer review has not commenced may resign from the program by submitting a letter of resignation to the board. However, once a peer review commences, and until its completion (see Interpretation No. 25-2), a firm will not be able to resign from the program except as stated in the following paragraph. A peer review commences when the review team begins field work, ordinarily at the reviewed firm's office in a System Review, or begins the review of engagements in an Engagement Review. The submission by the firm of a request to resign from the program once its peer review has commenced but has not been completed is considered a failure to cooperate with the administering entity and may lead to the termination of the firm's enrollment in the program by a hearing panel of the board.

A firm will be permitted to resign once its peer review has commenced but has not been completed when the firm submits a letter pleading guilty, acknowledging its noncooperation with the program, waiving its right to a hearing, and for firms with AICPA members, agreeing to allow the AICPA to pub-

lish, in such form and manner as the AICPA Council may prescribe, the fact that the firm has resigned from the program before completion of its peer review, evidencing noncooperation with the program. In addition, if (*a*) the firm has been notified of the reviewer's or administering entity's intent to issue or require a report with a peer review rating of *pass with deficiencies* or *fail* or (*b*) the reviewer or administering entity has knowledge of the discovery of an engagement that was not conducted in accordance with professional standards on which the firm must take, or would likely be required to take, action in accordance with professional standards, then the fact that the situation in items (*a*) or (*b*) of the preceding existed would also be published for firms with AICPA members.

If the firm does not sign the letter pleading guilty and waiving its right to a hearing, the firm will be referred to a Peer Review Board hearing panel. The panel will consider terminating the firm's enrollment due to noncooperation.

Cooperating in a Peer Review

5h-1

Question — Paragraph .05*h* of the standards notes that firms 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 (paragraphs .143–.144 of the standards). Under what circumstances will a firm be not cooperating, and what actions can be taken by the board for noncooperation?

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

> **AICPA Peer Review Board Resolution (Adopted April 29, 1996 with amendments through January 1, 2009, May 3, 2011, January 30, 2014, September 30, 2014, and September 27, 2016)**
>
> WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA *Standards for Performing and Reporting on Peer Reviews*; and
>
> WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the AICPA *Standards for Performing and Reporting on Peer Reviews* to cooperate with the peer reviewer, administering entity and the AICPA Peer Review Board in all matters related to the review, that could impact the firm's enrollment in the program;
>
> NOW, THEREFORE, BE IT RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be dropped by the AICPA Peer Review Board, without a hearing, thirty days after the AICPA Peer Review Program notifies the firm by certified mail, or other delivery method providing proof of receipt that the firm has failed to:

(1) Timely file requested information with the entity administering the firm's peer review concerning the arrangement or scheduling of that peer review, prior to the commencement of the peer review,

(2) Timely submit requested information to the reviewer necessary to plan or perform the firm's peer review, prior to the commencement of the peer review,

(3) Have a peer review by the required date,

(4) Accurately represent its accounting and auditing practice, as defined by the AICPA Standards for Performing and Reporting on Peer Reviews, after notifying its administering entity that it does not perform engagements that require the firm to have a peer review,

(5) Timely pay in full the fees and expenses of the review team formed by an administering entity, or

(6) Timely pay all fees related to the administration of the program that have been authorized by the governing body of an administering entity and the AICPA.

The AICPA Peer Review Board may at its discretion decide to hold a hearing. Whether a hearing is held or not, firms with AICPA members enrolled in the AICPA Peer Review Program have the right to appeal to the AICPA Joint Trial Board and firms without AICPA members have the right to appeal pursuant to fair procedures established by the board within 30 calendar days of being notified that the firm's enrollment has been dropped.

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

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

AICPA Peer Review Board Resolution (Adopted April 29, 1996 with amendments through January 1, 2009, May 3, 2011, August 8, 2012, January 30, 2014, September 30, 2014, November 30, 2014, and September 27, 2016)

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

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required under the AICPA *Standards for Performing and Reporting on Peer Reviews* to cooperate with the peer reviewer,

administering entity and the AICPA Peer Review Board in all matters related to the review, that could impact the firm's enrollment in the program;

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

- Not responding to inquiries once the review has commenced,
- Withholding information significant to the peer review, for instance but not limited to:
    1. failing to discuss communications received by the reviewed firm relating to allegations or investigations in the conduct of accounting, auditing, or attestation engagements from regulatory, monitoring, or enforcement bodies;
    2. omission or misrepresentation of information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews*, including, but not limited to, engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of broker-dealers, and examinations of service organizations (SOC 1® and SOC 2® engagements),
- Not providing documentation including but not limited to the representation letter, quality control documents, engagement working papers, all aspects of functional areas,
- Not responding to Matters for Further Consideration (MFCs) or Findings for Further Consideration (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 with AICPA members 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. Firms without AICPA members whose enrollment in the AICPA Peer Re-

view Program has been terminated have the right to appeal pursuant to fair procedures established by the board within 30 calendar days of the hearing; and

If a firm omits or misrepresents information relating to its accounting and auditing practice as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews* that results in a material departure [fn 2] in the firm's most recently accepted peer review, acceptance of the peer review documents will be recalled. A hearing panel will determine whether the firm's enrollment in the AICPA Peer Review Program should be terminated. If the hearing panel determines that the firm's enrollment will not be terminated, at a minimum the hearing panel will require that the firm have a replacement review submitted to the administering entity by the due date which will be approximately 60 days after the hearing panel's decision.

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

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

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to receive a pass report rating subsequent to receiving notification via certified mail, or other delivery method providing proof of receipt, after a peer review rating of *pass with deficiencies* or *fail* that a consecutive peer review rating of *pass with deficiencies* or *fail* may be considered a failure to cooperate with the administering entity. In addition, a firm that fails to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the same peer review may also be deemed as a firm failing to cooperate.

[fn 2] *Material departure* is defined in the chapter 3, section VII, "Considerations for the Recall of Peer Review Documents," of the *Report Acceptance Body Handbook*.

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

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

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

BE IT FURTHER RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be terminated for failure to cooperate in any of the preceding situations, without a hearing, upon receipt of a plea of guilty from the firm; and BE IT FURTHER RESOLVED: That pursuant to the AICPA *Standards for Performing and Reporting on Peer Reviews*, as to AICPA members, 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.

5h-2

Question — Paragraph .05*h* of the standards discusses matters that could impact the firm's enrollment in the program. If a firm's enrollment in the program is dropped or terminated, under what circumstances may the firm reenroll in the AICPA Peer Review Program (program)?

Interpretation — Ordinarily, firms may request reenrollment in the program after the firm has sufficient opportunity to implement appropriate changes to correct the cause of the drop or termination. Reenrollment in the program is subject to evaluation by either the administering entity or a hearing panel of the Peer Review Board.

The administering entity or a hearing panel of the Peer Review Board should be made aware of information that led to the firm's most recent drop or termination from any practice monitoring program. The administering entity may make the determination of whether action(s) is (are) satisfactorily completed and approve reenrollment for drops or terminations such as overdue actions and all other instances of noncooperation that do not require reenrollment consideration by a hearing panel of the AICPA Peer Review Board.

Reenrollments decisions subject to approval by a hearing panel of the AICPA Peer Review Board, include, but are not limited to:

Drops for not accurately representing its accounting and auditing practice as defined by the AICPA Standards for Performing and Reporting on Peer Reviews; and

Terminations 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;

- failure to receive a pass report rating subsequent to receiving notification via certified mail, or other delivery method providing proof of receipt, after a peer review rating of pass with deficiencies or fail; or

- failure to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the most recent peer review.

Reenrollment generally requires the firm to address and remediate the circumstances that caused the firm to be dropped or terminated. Common criteria for reenrollment, include but are not limited to, submitting evidence to the administering entity or hearing panel that demonstrates:

- Completion of the requested action

- Changes in the firm's system of quality control (such as, but not limited to, personnel changes or procedural changes, methodologies to identify the complete population of engagements performed, access to technical resources or membership in quality centers, and voluntary changes in the practice or types of industries or engagements performed)

- Competency through completion of relevant CPE, training, or competency assessments

- Assessment of quality in the performance of engagements through internal or external monitoring results (such as, but not limited to, pre-issuance reviews, post issuance reviews, and internal inspections that reflect engagements are materially performed and reported on in conformity with applicable professional standards)

The hearing panel or administering entity's peer review committee may also require other actions as a condition of reenrollment. Determination of final acceptance or completion of a review is subject to the administering entity's report acceptance body (RAB).

If reenrollment is approved and the firm is past its next peer review due date, the firm will generally be required to complete its subsequent peer review

- within 90 days of reenrolling if the firm's most recent peer review is completed, or

- within 90 days of the administering entity's RAB determining that actions taken are satisfactory to complete a commenced peer review or

- by a later date set by the hearing panel or the administering entity.

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

6-1

Question — Statement on Standards for Accounting and Review Services (SSARS) No. 19, *Compilation of Financial Statements* (AR sec. 80), includes compilations of financial statements where in very specific situations the accountant may document his or her understanding with the entity through the use of an engagement letter instead of issuing a compilation report. This approach is only available when the accountant submits unaudited financial statements to his or her client that are not expected to be used by a third party (in other words, compilation for management's use only). 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 AICPA's practice-monitoring standards and issue reports purporting to be in accordance with AICPA *Professional Standards*. Therefore, for purposes of individual AICPA membership admission and retention, firms (or individuals) that only perform these types of compilations, where no report is issued and no other engagements within the scope of peer review as discussed in paragraph .06 of the standards, would not be required to enroll in the program. Would the compilations for management's use only 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, compilations for management's use only would fall within the scope of peer review. The standards (and Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control* [QC sec. 10]) [fn 3] include, within the definition of an accounting and auditing practice, all engagements covered by SSARSs except where SSARSs provide an exemption from those standards.

6-2

Question — The current standards and guidance materials are written referring to *reports* throughout and do not consider an engagement performed when the compiled financial statements are not expected to be used by a third party (management use only) where a compilation report is not issued. What general guidance should be followed by peer reviewers?

[fn 3] The QC sections can be found in AICPA *Professional Standards*.

Interpretation — For purposes of the program only, the required documentation of the understanding in the engagement letter should be treated as though it was a *report* (as reports are discussed and referred to in the standards). This documentation would not be considered a *report* for bylaw purposes.

6-3

Question — A firm is not required to enroll in the AICPA peer review program if 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 — Yes. If a firm elects to enroll in the peer review program, and its only level of service is performing management use only compilation engagements, it is required to have a peer review. The peer review is required to be performed under these standards.

6-4

Question — Specifically, what should the peer reviewer be reviewing on such an engagement in a System or Engagement Review?

Interpretation — AR section 80, *Compilation of Financial Statements*, requires the accountant to document the understanding of the engagement with the entity through the use of an engagement letter. The reviewer is to inquire about the engagement letter to determine that it documents that understanding. The reviewer should also review the financial statements to determine that the required restriction of their use is on each page. Except for the restriction of use, the reviewer should not be reviewing the financial statements, disclosures, or supplementary information for accuracy, appropriateness, or conformity with professional standards.

6-5

Question — Must a peer reviewer select such an engagement in a System or Engagement Review?

Interpretation — No. This engagement is not considered a different level of service. It is a compilation that either contains all disclosures required by generally accepted accounting principles (GAAP) or a special purpose framework, or the disclosures are omitted. The standards already discuss the engagement selection process for such engagements in an Engagement Review. In addition, a System Review requires the peer reviewer to use a risk-based approach when selecting engagements. Management use only financial statements do not change the existing engagement selection process.

6-6

Question — Should the standard language in the peer review report be tailored on a System or Engagement Review, if such engagement(s) are selected for review, to reflect the fact that these are compilations with documentation requirements and issued without a compilation report?

Interpretation — No.

Engagements Performed or Reported Under International Standards

6-7

Question — Paragraph .06 of the standards provides the definition of an accounting and auditing practice for the purposes of these standards as all engagements covered by Statements on Auditing Standards (SASs), SSARS, Statements on Standards for Attestation Engagements (SSAEs), *Government Auditing Standards*, and engagements performed under PCAOB standards. Engagements subject to the program are those included in the firm's accounting and auditing practice that are not subject to PCAOB permanent inspection. What about International Standards on Auditing, Assurance Engagements and Related Services (ISAs), any other standards issued by the International Auditing and Assurance Standards Board (IAASB) or any other audit or assurance standards outside of the U.S. ("international standards")?

Interpretation — The "Council Resolution Designating Bodies to Promulgate Technical Standards" (ET app. A), identifies the bodies recognized by AICPA Governing Council to set standards. The IASB (International Accounting Standards Board) which issues International Financial Reporting Standards (IFRS) is included (as is FASB, FASAB, and GASB). Although peer review standards do not refer to the accounting standard setters, this means that IFRSs is within the scope of our peer review process.

However, the IAASB is not currently recognized by the AICPA (nor is the International Public Sector Accounting Standards Board), therefore compliance with ISAs issued by the IAASB, and any other audit or assurance standards outside of the U.S., is not included in the scope of peer review. Firms performing such engagements are required to follow certain U.S. professional standards — see Interpretation No. 6-8.

6-8

Question — Is an *engagement* performed under the ISAs, any other standards issued by the IAASB or any other audit or assurance standards outside of the U.S. ("international standards") included in the scope of the peer review?

Interpretation — Yes, an engagement performed under international standards would be included in the scope of the peer review. Under U.S. professional standards, the engagement would comply with elements of both the international standards and U.S. professional standards. However, the peer reviewer should only test compliance with the U.S. professional standards described in paragraph .06 of the peer review standards (that is, engagements performed under SASs, SSARS, SSAEs, *Government Auditing Standards*, and PCAOB standards not subject to PCAOB permanent inspection). Testing of compliance with any international standards is not included in the scope of the review.

The peer reviewer should inquire of the firm during planning about whether any engagements were performed under international standards. If yes, the peer reviewer should inquire if the firm understands professional guidance for reporting on statements for international use.

A misunderstanding of U.S. professional guidance for reporting on statements for international use increases the risk of an engagement not performed and reported on in accordance with professional standards.

The peer reviewer should consult with AICPA program staff for further guidance, if necessary.

Engagements Subject to PCAOB Inspection

6-9

Question — Paragraph .06 of the standards cover engagements that are not subject to PCAOB permanent inspection. What does this mean?

Interpretation — PCAOB inspections generally cover audits of SEC issuers. Regulatory changes may provide the PCAOB with the authority to inspect additional engagements. In such scenarios, the PCAOB may undertake an interim inspection program to determine the scope of engagements that will be included in a permanent inspection. During an interim inspection period, such engagements are not deemed to be inspected by the PCAOB for purposes of peer review. Therefore, the engagements would still be included in the scope of peer review until such time that a permanent inspection is adopted by the PCAOB. Additionally, the SEC may set forth rules that require engagements to be performed under other professional standards, but do not require PCAOB permanent inspection. If the SEC rules indicate that the engagements are subject to professional standards, such as those included in paragraph .06 of the standards, but are not subject to PCAOB permanent inspection, those engagements are included in the scope of peer review.

Engagements Under Peer Review

7-1

Question — Paragraph .07 of the standards indicates that the *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. Firms that perform audits of employee benefit plans that are required to file a Form 11-K, must also comply with generally accepted auditing standards (GAAS) for ERISA or DOL reporting purposes by preparing a separate set of GAAS based financial statements. Because the firm must be registered with the PCAOB and perform the employee benefit plan audit in accordance with PCAOB standards, and the engagement is subject to PCAOB permanent inspection, should the scope of the peer review include the review of the GAAS based financials for 11-K filers?

Interpretation — Because the engagement is already included under the scope of the PCAOB permanent inspection process, and the PCAOB's requirements are more restrictive than GAAS requirements, it is not subject to peer review.

7-2

Question — Paragraph .07 of the standards indicates that firms that perform engagements that are not subject to PCAOB permanent inspection under the SASs or *Government Auditing Standards*, examinations under the SSAEs, or engagements under PCAOB standards have peer reviews called *System Reviews*. Firms that only perform services under SSARS or services under the SSAEs not included in Sys-

tem Reviews have peer reviews called *Engagement Reviews.* Is the System Review or Engagement Review determination based on the types of engagements a firm performs as its highest level of service?

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

If a Firm Performs These Types of Engagements as Its Highest Level of Service, the Firm Would be Required to Have:	**System Review**	**Engagement Review**
Statements on Auditing Standards (SASs)		
Engagements	X	
Government Auditing Standards (GAS)		
Financial Audits	X	
Attestation Engagements (Examination, Review, or Agreed-Upon Procedures Under GAS)	X	
Performance Audits	X	
Statements on Standards for Attestation Engagements (SSAEs)		
Examination Engagements	X	
Reviews		X
Agreed-Upon Procedure Engagements		X
PCAOB Standards		
Audits of non-SEC issuers	X	
Attestation of non-SEC issuers	X	
Statements on Standards for Accounting and Review Services (SSARSs)		
Reviews of Financial Statements		X
Compilation		X
Preparation of Financial Statements Engagements		X

If a firm is required to have a System Review, all the engagements listed in the preceding table would be subject to selection for review, ordinarily based on periods ending during the year under review, except for financial forecasts, projections and agreed upon procedures. Financial forecasts, projections and agreed upon procedures with report dates during the year under review would be subject to selection.

If a firm performs or reports on engagements under International Standards, refer to Interpretation Nos. 6-7 and 6-8.

Preparation of Financial Statements Engagement

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 SSARSs. 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 is required to enroll in the peer review program due to licensing or other requirements or otherwise elects to enroll in the peer review program, and its only level of service is performing preparation engagements (with or without disclaimer reports) under SSARSs, 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 SSARSs except when SSARSs provide an exemption from those standards.

Performing System Review Procedures Remotely

8-1

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

Interpretation — The board has suspended the requirement in par. .08 for reviews commencing on or before June 30, 2021. The reviewer should consider the impact of performing system review procedures remotely on the peer review risk assessment and document those considerations in the SRM.

Peer Reviews To Be Administered by the National Peer Review Committee

11-1

Question — Paragraphs .11, .128, and .161 of the standards note that peer reviews intended to meet the requirements of the program should be carried out in conformity with the standards under the supervision of a state CPA society, group of state CPA societies, the National PRC, or other board committee or entity (hereinafter, administering entity) approved by the board to administer peer reviews. Under what circumstances are peer reviews administered by the National PRC?

Interpretation — Firms are required to have their review administered by the National PRC if they meet any of the following criteria:

a. The firm performed or played a substantial role in (as used by the PCAOB) an engagement under PCAOB standards with a period-end during the peer review year.

b. The firm is a provider of quality control materials (QCM) (or affiliated with a provider of QCM) that are used by firms that it peer reviews.

Firms that are not required to have their review administered by the National PRC may choose to do so. However, such firms are subject to the National PRC's administrative fee structure and should familiarize themselves with that structure prior to making such a decision.

Timing of Peer Reviews

13-1

Question — Paragraph .13 of the standards notes that a firm's due date for its initial peer review is ordinarily 18 months from the date it enrolled in the program or should have enrolled, whichever date is earlier. What is meant by "should have enrolled?" In addition, what is the due date for a firm that was previously enrolled in another peer review program?

Interpretation — When an individual becomes an AICPA member, and the services provided by his or her firm (or individual) fall within the scope of the AICPA's practice-monitoring standards, and the firm (or individual) issues reports purporting to be in accordance with AICPA *Professional Standards*, the firm (or individual) should enroll in the program and submit an enrollment form by the report date of the initial engagement. If the firm (or individual) does not initially provide services falling within the scope of the standards, the firm (or individual) should enroll in the program and submit an enrollment form by the report date of their initial engagement. The administering entity will consider the firm's (or individual's) practice, the year-ends of their engagements, the report dates of their engagements, and the number and type of engagements to be encompassed in the review, in determining an appropriate due date. A firm's subsequent peer review ordinarily will be due three years and six months from this peer review year-end. The peer review year-end should be determined pursuant to paragraph .17 of the standards.

If a firm's most recent peer review was under the auspices of a peer review program administered by an entity approved by the board fully involved in the administration of the AICPA Peer Review Program, conducted in accordance with the AICPA *Standards for Performing and Reporting on Peer Reviews*, its subsequent peer review ordinarily will be due three years and six months from the year-end of that peer review.

If a firm's most recent peer review was under the auspices of another peer review program by an administering entity not approved by the board, even if conducted in accordance with the AICPA *Standards for Performing and Reporting on Peer Reviews*, its subsequent peer review ordinarily will be considered an initial peer review, due 18 months from the date it enrolled or should have enrolled in the Program administered by an entity approved by the board.

14-1

Question — Paragraph .14 of the standards states that when a firm performs its first engagement requiring it to have a System Review, the firm's next due date will be 18 months from the year-end of the engagement. What does this mean?

Interpretation — When a firm, subsequent to the year-end of its Engagement Review, performs an engagement under the SASs, *Government Auditing Standards*, examinations under the SSAEs, or an engagement performed under PCAOB standards that would have required the firm to have a System Review, the firm should (*a*) immediately notify the administering entity and (*b*) undergo a System Review. The System Review ordinarily will be due 18 months from the year-end of the engagement (for financial forecasts, projections and agreed upon procedures: 18 months from the date of report) requiring a System Review or by the firm's next scheduled due date, whichever is earlier. However, the administering entity will consider the firm's practice, the year-ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review, as well as use its judgment, to determine the appropriate year-end and due date. Firms that fail to immediately inform the administering entity of the performance of an engagement previously described will be required to participate in a System Review with a peer review year-end that covers the engagement. A firm's subsequent peer review ordinarily will be due 3 years and 6 months from this peer review year-end.

14-2

Question — When a firm has been performing engagements that allowed it to have an Engagement Review and, as a result of a change in paragraph .07 of the standards is now required to have a System Review, is the firm's next due date 18 months from the year-end of the engagement (report date for financial forecasts and projects) triggering a System Review?

Interpretation — No. If the firm continues to only perform the types of engagements that previously allowed it to have an Engagement Review, the firm would not be required to have its next peer review due 18 months from the year-end of the engagement (or report date for financial forecasts, projections and agreed upon procedures) triggering a System Review. The firm will stay on its current peer review cycle and the type of review for its next peer review will be determined based on the date it is scheduled. A firm's review is defined as scheduled when the review team is approved by the administering entity.

- If a review is scheduled prior to the effective date of the change to paragraph .07 of the standards and commences within one year of being scheduled, the firm may still have an Engagement Review or elect to have a System Review.

- If a review is scheduled prior to the effective date of the change to paragraph .07 of the standards, but does not commence within one year, the firm will have a System Review.

- If a review (regardless of commencement date) is scheduled on or after the effective date of the change to paragraph .07 of the standards, the firm will have a System Review.

For each scenario, the firm's subsequent peer review will be a System Review, ordinarily due 3 years and 6 months from the year-end of this peer review.

14-3

Question — What is the peer review year end and the due date for a firm (or individual) that is currently enrolled in the program, but later begins issuing reports purporting to be in accordance with AICPA *Professional Standards*?

Interpretation — The peer review due date of an enrolled firm that begins to perform, or reestablishes the performance of, engagements requiring it to undergo a peer review (see paragraph .07) is ordinarily 18 months from the fiscal year-end of the initial engagement performed by the firm (or individual). The administering entity will consider the firm's (or individual's) practice, the year-ends of their engagements, the report dates of their engagements, and the number and type of engagements to be encompassed in the review, in determining an appropriate due date. A firm's subsequent peer review ordinarily will be due three years and six months from this peer review year-end. The peer review year-end should be determined pursuant to paragraph .17 of the standards.

14-4

Question — The due date in paragraph .14 is different than the due date in paragraph .13. When would paragraph .14 be applicable?

Interpretation — Paragraph .14 speaks to firms currently enrolled in the program that were not required to undergo a peer review (see paragraph .07) or the enrolled firm previously had an engagement review and is now required to have a system review. While paragraph .13 applies to firms that have not previously enrolled in the program and are required to enroll and undergo a peer review.

17-1

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

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

18-1

Question — Paragraph .18 of the standards requires that a firm maintain the same year-end on subsequent peer reviews (which is 3 years from the previous year-end) and the same review due date (which

is 3 years from the previous due date). What options does a firm have to change its year-end or extend the due date?

Interpretation — A firm is expected to maintain the same year-end on subsequent peer reviews. Nevertheless, circumstances may arise that may influence a firm to want to change its year-end. For instance, the nature of the firm's practice may change or they may reevaluate their current year-end and determine as a result that a different year-end is more practical. In such situations, a firm may change its year-end only with prior, written approval of the administering entity.

Administering entities will consider many factors including the nature of the firm's practice (for instance, when audits are being performed and issued so they will be available for the peer review, tax season, and so on). However, a change in year-end will usually not be approved when there is a public interest concern. This may occur when the firm is requesting the change in an attempt to have an Engagement Review rather than a System Review, or when a change in year-end would cause the firm's only engagement meeting the criteria described in Interpretation No. 63-1, (engagements conducted in accordance with *Government Auditing Standards*; audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA); audits of an insured depository institution subject to the FDIC Improvement Act of 1991; audits of broker-dealers or examinations of service organizations (SOC 1 and SOC 2 engagements) to fall out of the peer review selection process.

Ordinarily, the firm's due date for the subsequent peer review will be three years and six months from the year-end of the current peer review.

A firm is expected to maintain the same review due date. Nevertheless, circumstances may arise that require the firm to extend its review due date. In such situations, a firm may do so only with prior, written approval of the administering entity, and the extended review due date only applies to the current review. Extensions for subsequent review's due dates must be reapplied for.

Extensions of a review due date by more than three months should be rare. However, in some situations, due to the size of the firm, the complexity of the peer review, and whether or not the review team is integrating peer review procedures with the firm's internal inspection procedures, it is not unusual for a peer review to occur over a number of months. In such situations, a firm whose peer review has oversight performed by the administering entity may extend its review due date by up to six months with prior, written approval of the administering entity.

In any of the situations previously described, it is the responsibility of the firm to ensure that any change in the review due date (or year-end) approved by the administering entity is recognized by any other organizations requiring it to have a peer review. This includes but is not limited to state boards of accountancy, the Government Accountability Office, and other regulators.

18-2

Question — Situations may arise when circumstances out of a firm's control, such as a natural disaster or other catastrophic event, affect a firm's ability to comply with some or all of the peer review requirements, including timing of the peer review. What should a firm do in those specific circumstances?

Interpretation — The administering entity should be consulted, when possible, about how the firm believes the situation has affected or will affect its peer review or its ability to perform scheduled peer reviews (if applicable).

If the situation affected both the firm's operations and its ability to comply with peer review requirements, the firm should discuss the following with the administering entity:

- The firm's current peer review year-end and due date
- The extent of damage to the firm's office(s) and the working papers subject to peer review, if applicable (this would include off-site storage or data retention facilities that house working papers subject to peer review)
- The availability, or lack thereof, of personnel that performed engagements subject to peer review
- The firm's ability to continue operating and performing engagements subject to peer review
- If known, whether the firm's scheduled peer reviewer was also impacted
- The amount of time the firm deems necessary before it would be ready to undergo a peer review

The administering entity will assist in determining whether there could be a possible scope limitation due to the exclusion of any affected engagements or offices, the need for a change in year-end or an extension of due date, and the effect on the firm's continuing peer review cycle. These situations will be considered on a case-by-case basis.

If the firm's peer review already commenced and the continued performance of the peer review is impacted, the firm should notify its administering entity as soon as reasonably possible. The administering entity will assist in determining the best course of action.

If the situation did not directly affect the firm's operations but has impacted the firm's ability to comply with peer review requirements (that is, the firm's scheduled peer reviewer was directly affected and may no longer be able to perform the peer review), the firm should consult with its administering entity. The administering entity will assist the firm in determining whether it is appropriate to extend the peer review due date or if the firm should engage another firm to perform its peer review. In making this determination, the administering entity will consider the following:

- The firm's peer review year-end and the timing of when engagements falling within the peer review year are performed
- The length of time between the timing that the situation arose and the firm's due date
- The amount of time that the currently scheduled peer reviewer or review team would need before being able to perform the peer review
- Whether the firm has very specialized industries or types of engagements

If the firm performs peer reviews and a review is scheduled that the firm will be unable to perform by the reviewed firm's due date (or at all), the reviewing firm should communicate this information to the reviewed firm and the administering entity as soon as reasonably possible. Contacting the reviewed firm and the administering entity is especially important when the peer review has commenced but the reviewing firm has doubts about its ability to complete the review.

19-1

Question — Paragraph .19 of the standards states that when a firm resigns from the program and subsequently reenrolls in the program, the firm's due date is the later of the due date originally assigned or 90 days after reenrolling. How does this apply when a firm resigns from the program at the end of its peer review because it does not plan to perform engagements that require a peer review going forward, but subsequently performs such work?

Interpretation — If a firm performs an engagement that would require a peer review (see Interpretation No. 7-1) subsequent to resigning from the program, the firm should immediately notify the administering entity in order to reenroll in the program and schedule its peer review. The appropriate due date for the peer review is determined as follows:

- If the firm resigned from the program and subsequently performs an engagement that requires a peer review within 3 years and 6 months of its prior peer review year-end, the current peer review due date is the later of the due date originally assigned or 90 days after reenrolling.

- If the firm resigned from the program and subsequently performs an engagement that requires a peer review after its next due date has passed (that is, the prior peer review is longer than 3 years and 6 months in the past), the current peer review due date is ordinarily 18 months from the year-end of the engagement (for financial forecasts, projections and agreed upon procedures, 18 months from the date of report) requiring a peer review.

In either case, the administering entity will consider the firm's practice, the year-ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review, as well as use its judgment, to determine the appropriate year-end and due date. A firm's subsequent peer review ordinarily will be due 3 years and 6 months from this peer review year-end.

Independence, Integrity, and Objectivity

21-1

Question — Paragraph .21 of the standards states that independence in fact and in appearance should be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review and that the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities. What criteria have been established by the board?

Interpretation — The following criteria have been established:

a. Reciprocal Peer Reviews

Reciprocal peer reviews are not permitted. This means that a firm may not perform a review of the firm that performed its most recent review. It also means that a reviewer may not serve on a review team carrying out a review of a firm whose personnel participated in the most recent review of that reviewer's firm.

b. Relationships With Clients of the Reviewed Firm

Review team members and, in the case of a review performed by a firm, the reviewing firm and its personnel are not precluded from owning securities in or having family or other relationships with clients of the reviewed firm. However, a review team member who owns securities of a reviewed firm's client shall not review the engagement of that client because that individual's independence would be considered to be impaired. In addition, the effect on independence of family and other relationships and the possible resulting loss of the appearance of independence must be considered when assigning team members to engagements.

c. Relationships With the Reviewed Firm

Reviewing firms should consider any family or other relationships, affiliate relationships, alternative practice structures, and common ownership of entities that provide products or services between the management at organizational and functional levels of the reviewing firm and the firm to be reviewed, and should assess the possibility of an impairment of independence. For peer review purposes (including QCM reviews), entities that are affiliated to, are part of an alternative practice structure with, or share common ownership with a reviewing firm are considered to be a part of the reviewing firm when assessing the independence of the reviewing firm.

If the fees for any services provided between firms (whether paid by the referring firm or by the client) are material to the reviewed firm, the reviewing firm, or the firm of any member of the review team, independence for the purposes of this program is impaired.

If arrangements exist between the reviewed firm and the reviewing firm (and any of its affiliates or related entities) or the firm of any member of the review team whereby expenses, office facilities, or personnel are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, extensive consultation, or pre-issuance reviews of financial statements and reports. In such circumstances, the firms involved are sharing services that are an integral part of their systems of quality control.

If the reviewing firm has provided or sold QCM to the reviewed firm (such as manuals, guides, checklists, practice aids, and so on) independence for the purposes of this program is impaired. However, the impairment would be removed if an independent peer review of the QCM was performed and submitted to the National PRC before the commencement of the reviewed firm's peer review (see paragraphs .159–.160 and Interpretation No. 200-1). In addition, regardless of whether an independent review of the QCM was performed, the review team members cannot be directly involved in the development or maintenance of the provider firm's materials, report to those who were directly responsible for the development or maintenance of the materials, or re-

ceive more than a *de minimus* amount of revenues or other monies generated by the sale of the materials.

21-2

Question — Can an individual from Firm A be engaged by Firm B to conduct monitoring of Firm B's accounting and auditing practice or a consulting review and then be engaged to perform Firm B's subsequent peer review? What about another individual from Firm A?

Interpretation — In both cases, yes, except if the monitoring of Firm B's accounting and auditing practice or consulting review is performed for the year immediately preceding or during the peer review year.

21-3

Question — Firm A is engaged by Firm B to perform a quality control document review, a preliminary quality control procedures review, or both. Could Firm A then be engaged to perform a peer review of Firm B?

Interpretation — Yes, except if the quality control document review, preliminary quality control procedures review, or both are performed for the year immediately preceding or during the peer review year.

21-4

Question — Firm A is engaged to perform the peer review of Firm B. However, Firm A performed a pre-issuance review on one of Firm B's reports and accompanying financial statements for an accounting or auditing engagement during the period since the last peer review year-end. Can Firm A perform the peer review of Firm B?

Interpretation — Yes, unless the pre-issuance review(s) was performed on an engagement within the year immediately preceding or during the peer review year.

21-5

Question — Firm A audits the financial statements of Firm B's pension plan. Could either firm perform a peer review of the other?

Interpretation — Yes, provided that the fees incurred for the audit are not material to either of the firms. An audit of financial statements is a customary service of an accounting firm. However, reciprocal peer reviews are not permitted.

21-6

Question — A partner in Firm A serves as an expert witness for Firm B or for a party opposing Firm B. Are Firms A and B independent of each other?

Interpretation — Yes, provided that the fee is not material to either firm and provided that the outcome of the matter, if adverse to Firm B, would not have a material effect on its financial condition or its ability to serve clients.

21-7

Question — Firm A is engaged to perform the peer review of Firm B. Firm B's staff attends CPE programs developed by Firm A. Can Firm A perform a peer review of Firm B?

Interpretation — Yes, as long as Firm A has not effectively become part of Firm B's system of quality control. If Firm A, or any affiliates of or entities related to Firm A, develop and customize CPE specifically to Firm B's needs, both firms would need to assess the extent and degree of customization to determine whether Firm A has become a part of Firm B's system of quality control or had a significant enough impact on that system such that Firm A's independence would be impaired. Factors to consider include the degree of customization, the significance of the programs to Firm B's system of quality control, whether Firm A was involved in determining the type of CPE programs that Firm B needs, and so on. Based on the factors considered, if the nature of Firm A's relationship with Firm B effectively makes Firm A part of Firm B's system of quality control, Firm A's independence is impaired for the first peer review immediately subsequent to the training provided.

For example, if Firm A developed and presented CPE programs and training for Firm B that were customized to Firm B's practice, including using some of Firm B's engagements as examples and learning tools, Firm A's independence is impaired for the first peer review immediately subsequent to the training provided. However, Firm A would be permitted to perform any successive peer reviews.

This assessment should be made by both firms prior to the commencement of the peer review. Firm B should consult with the administering entity if needed.

21-8

Question — Firm A occasionally consults with Firm B with respect to specific accounting, auditing, or financial reporting matters. Are Firms A and B independent of each other?

Interpretation — Yes, unless the frequency and extent of the consultation is such that Firm B is an integral part of Firm A's consultation process.

21-9

Question — Firm B uses Firm A's internally-developed accounting and auditing manual as its primary reference source. Can Firm A perform a peer review of Firm B, or can Firm B perform a peer review of Firm A?

Interpretation — No, unless Firm A has had a QCM review performed that covers its accounting and auditing manual and any other of its reference material used by Firm B as a primary reference source (see "Performing and Reporting on Reviews of Quality Control Materials (QCM)" in the standards). This is also applicable if the manual is developed by an affiliate of Firm A, or any other entity related to Firm A. If this is Firm A's initial QCM review, then Firm A is not independent to perform the peer review of Firm B until the QCM review is accepted. For all subsequent QCM reviews, Firm A will remain

independent with respect to Firm B, as long as the QCM review is submitted by the due date. If Firm A elects not to have a QCM review performed before Firm B's peer review commences, Firm A would not be considered independent for purposes of conducting the peer review. In all circumstances, the review team members cannot be directly involved in the development or maintenance of Firm A's accounting and auditing manual, report to those who were directly responsible for the development or maintenance of the manual, or receive more than a *de minimus* amount of fees or other monies from the total revenues generated by the sale of the manual.

21-10

Question — Firm A performs a peer review of Firm B. Subsequently, Firm C performs a peer review of Firm B, and Firm D of Firm A. Would the restriction against reciprocity be violated if Firm B were now to review Firm A?

Interpretation — No. Although the standards state that reciprocal peer reviews are not permitted, that provision is intended only to prohibit back-to-back peer reviews when each firm has not had an intervening peer review by another firm or team. However, this may be a situation where the administering entity elects to perform oversight.

21-11

Question — A manager from Firm A served as a team member on the most recent peer review of Firm B. Can a reviewer from Firm B serve on the peer review team of Firm A?

Interpretation — No, because that would be considered a reciprocal review.

21-12

Question — Can an individual from Firm A be engaged by Firm B to perform a peer review of Firm B and subsequently be engaged the following year(s) to conduct an inspection of Firm B's accounting and auditing practice or a consulting review? What about another individual from Firm A?

Interpretation — In both cases, yes; however, individual(s) from Firm A would not be eligible to perform Firm B's subsequent peer review except as noted in Interpretation No. 21-2.

21-13

Question — Firm A included the qualifications of Firm B in a proposal for one or more specific engagements. Could either firm perform a peer review of the other following a successful proposal?

Interpretation — No, unless any fees paid to Firm B are not material to either of the firms; the firms do not share directly or indirectly, or participate in, the profits of the other; the firms do not share fees, office facilities, or personnel; the firms do not have joint ownership of a for-profit entity; and the firms do not exercise any direct or indirect management control over the professional or administrative functions of the other.

21-14

Question — A group of firms places an advertisement in a trade journal indicating that its members are "specialists" and provide the "best advice." Although the firms are not specifically identified in the advertisement, a toll-free telephone number or internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

Interpretation — No, because the group is marketing or selling services to potential clients on behalf of the firms, where the representations about the firms and the quality of their services are not objective or quantifiable.

21-15

Question — A group of firms places an advertisement in a trade journal. The advertisement indicates the number and geographical location of the member firms and states that its members provide professional accounting and auditing services to over 2,500 industry clients nationwide and that each of the member firms passed its most recent peer review. A toll-free telephone number or internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

Interpretation — Yes, provided that the group is not a network as defined by Interpretation No. 26-2, the group has submitted the Association Information Form (AIF) to the board; and the group has received notification that the AIF was accepted because the representations in the advertisement are objective or quantifiable.

21-16

Question — What would be *objective and quantifiable* with respect to representations made in advertisements by an association of CPA firms, such as in brochures, pamphlets, websites, and the like?

Interpretation — Representations made in advertisements by an association of CPA firms would be considered *objective and quantifiable* provided that the association of CPA firms maintains documentation to support the representations and such documentation is available for review by the board. For example, if an association of CPA firms advertises that its members provide professional accounting and auditing services to a designated number of industry clients in a certain geographic area, some form of client listing should be maintained in support of the representation. If an association of CPA firms advertises that each of its member firms have passed peer review, letters from the entities accepting the peer review documents of those firms should be maintained. Representations should not be made by an association of CPA firms in their advertisements that designate themselves as "the best," "the finest," "uniquely qualified," "prestigious," "elite," or other similar language. These superlative descriptions are generic words and terms that are too subjective. Also, such representations in advertisements by an association of CPA firms cannot be readily supported by any form of documentation that can be reviewed.

21-17

Question — Certain members of an association (that is, parent association) may form a partnership or sub-association, which is a grouping of association member firms for the purpose of cooperating to enhance the firms' capabilities to provide professional services. Can members of the sub-association per-

form peer reviews on firms of the parent association that are not involved in the activities of the sub-association?

Interpretation — Although a member of a sub-association cannot peer review another member of the same sub-association, the existence of a sub-association by itself should not disqualify members of the sub-association from performing peer reviews of nonaffiliated member firms of the parent association. However, members of a sub-association should not perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association if the parent association and sub-association belong to the same network as defined by Interpretation No. 26-2.

21-18

Question — Is independence impaired when the reviewers' firm and the firm subject to peer review have arrangements with the same non-CPA owned entity (including all entities owned or controlled by a common parent company) where the partners of both firms are also employees of that non-CPA owned entity and remit revenues or profits, or both, to the non-CPA owned entity for payment of the lease of employees, office facilities, equipment, or other services provided by the non-CPA owned entity?

Interpretation — Yes, independence is impaired, and the firms involved with the non-CPA owned entity are precluded from participating in the peer review of one another or of other firms related to the non-CPA owned entity.

21-19

Question — A state CPA society places an advertisement promoting the CPA profession without identifying any specific firms. May firms whose personnel belong to that state CPA society provide peer review for each other?

Interpretation — Yes.

21-20

Question — Firm A and Firm B have shared office facilities for the last several years. Due to the growth of both firms, Firm B moved into new offices on January 1, 2014. In March 2016, Firm A engaged Firm B to perform the peer review of Firm A. Firm A's peer review year-end is December 31, 2015. Can Firm A perform the peer review of Firm B?

Interpretation — Yes, because the firms did not share office facilities within the current peer review year and any subsequent periods thereafter.

21-21

Question — Firm A purchases an accounting and auditing manual developed by an association that it belongs to as its primary reference source. Personnel from Firm B who are also peer reviewers aided the association with the development of the manual by authoring significant sections of the manual. The as-

sociation receives annual approval to form review teams for its member firms. Can the association include reviewers from Firm B on the review team to peer review Firm A?

Interpretation — Yes, as long as the following personnel from Firm B are not included on the review team: personnel directly involved in the development or maintenance of the association's accounting and auditing manual (such as those who authored sections of the manual), personnel who report to those who were directly responsible for the development or maintenance of the manual, or personnel who receive more than a *de minimus* amount of fees or other monies from the total revenues generated by the sale of the manual.

21-22

Question — ABC, Inc. (an affiliate of Firm A) is a provider of audit manuals and guides for various industries. Firm B purchases an industry-specific audit manual from ABC, Inc., to assist with performing audit engagements for a niche industry. The niche industry represents an insignificant portion of Firm B's overall audit and attest practice. Firm B does not purchase any other practice aids or manuals from ABC, Inc. Can Firm A perform the peer review of Firm B?

Interpretation — Yes, unless either the niche industry grows to become a more significant part of the firm's overall practice and the same audit manual is used, or the niche industry is a must-select industry. If either occurs, then the industry manual would be assessed as being integral to Firm B's system of quality control, and Firm A's independence would be impaired (see Interpretation Nos. 21-1c and 159-1 for additional information on affiliate relationships). If ABC, Inc. had the relevant audit manual undergo an independent QCM review in compliance with the standards, Firm A's independence would not be impaired. However, any reviewers from Firm A who participated in the development or maintenance of ABC, Inc.'s materials, report to those who were directly responsible for the development or maintenance of the materials, or receive more than a *de minimus* amount of the revenues generated from the sale of the materials would not be independent of Firm B and would not be approved as a part of the review team under any circumstances. This is applicable regardless of the nature of the materials purchased by Firm B, and includes audit programs, practice aids, and so on.

If the nature of the audit manual or guide purchased and adopted is not integral to Firm B's system of quality control, independence would not be impaired. Factors that should be considered in assessing whether the manual is an integral part of the system of quality control include the size of the impacted portion of the firm's practice (by industry, level of service, engagement hours, and so on); the risk associated with that portion of the firm's practice (for example, must-select industries); the degree of reliance placed on the manual; the significance of the guidance provided by the manual to the related engagements; and so on.

21-23

Question — Reviewers from Firm A provide technical consultation to a third-party provider of QCM. The extent of the consultation entails reviewing portions of various guides for technical accuracy and providing feedback (if any) to the provider. The reviewers have no control over whether their feedback is addressed or how it impacts the end products ultimately marketed as the guides. Firm B uses guides developed by the provider as an integral part of its system of quality control. Can Firm A perform the peer review of Firm B?

Interpretation — Yes, Firm A would be independent for purposes of conducting the peer review of Firm B. However, when reviewers provide consulting or other services to third-party providers, they should assess whether their individual contributions were sufficiently significant to make them a part of the provider's system. In this circumstance, the extent of the reviewers' contributions does not make them a part of the provider's system of quality control. Similarly, if the reviewers from Firm A authored or edited portions of a third-party provider's guides or other materials, they should also assess the degree and impact of their contributions.

If the reviewers' contributions went beyond simple consultation and entailed more formal technical review and approval procedures as a part of the development and maintenance process, or if the reviewers exercised control within the development and maintenance process such that feedback and comments had to be addressed or incorporated into the materials, then the independence of Firm A is impaired. Firm A's independence would also be impaired if the reviewers authored or edited substantial portions of the guides. In both of these scenarios, the reviewers' contributions are significant to the provider's development and maintenance process such that the reviewers has effectively become a part of the provider's system of quality control.

If the provider elected to have an independent QCM review, and the scope of the review included the materials technically reviewed, authored, and so on by the reviewers, then Firm A's independence would no longer be impaired. However, the specific reviewers from Firm A who participated in the development or maintenance of the materials, report to those that were directly responsible for the development or maintenance of the materials, or receive more than a *de minimus* amount of the revenues generated from the sale of the materials would not be independent of Firm B.

Illegal Acts

23-1

Question — Paragraph .23 of the standards discusses the obligation for all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner. What responsibilities do reviewers have to detect illegal acts during a peer review?

Interpretation — Reviewers have no responsibility to detect illegal acts that have either a direct or indirect effect on the firm's ability to practice public accounting. If a reviewer comes across an illegal act during a review, he or she should consider consulting with his or her attorney, and consult with appropriate AICPA staff.

Peer Review Documentation and Retention Policy

24-1

Question — Paragraph .24 of the standards notes peer review documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. How should the peer review be documented to comply with this requirement?

Interpretation — Among other things, peer review documentation includes records of the planning and performance of the work, the procedures performed, and conclusions reached by the peer reviewer. This includes documenting the risk assessment, the understanding of the firm's system of quality control, and tests of compliance (including checklists for the review of engagements and staff interviews when there are professional staff). The board has authorized the issuance of materials and checklists, including checklists for the review of engagements, to guide team captains, review captains, and other members of the review team in carrying out their responsibilities under these standards.

Ordinarily, materials and checklists developed and issued by the board are to be used by reviewers in carrying out their responsibilities under these standards. Based on its understanding of the reviewed firm's system of quality control and its assessment of peer review risk, the review team should determine if materials and checklists issued by the board are not sufficiently comprehensive to use on the review. In this event, other materials and checklists may be used; however, they must include the same elements as, and must be more comprehensive than those versions issued by the board. Reviews conducted utilizing alternate materials and checklists will require advance notice to the administering entity and the review must be subject to on-site oversight. The electronic MFC, FFC, and Disposition of Matter for Further Consideration forms provided by the board must be used for all peer reviews and alternative forms will not be accepted. It is the responsibility of the team captain or review captain to ensure that the materials and checklists used meet these standards. Failure to complete all relevant materials and checklists may create the presumption that the review has not been performed in conformity with these standards, and thus the administering entity should be consulted in advance of use of any equivalents to assist in reaching these conclusions.

Completion of Peer Reviews Online

24-2

Question — Paragraph .24 of the standards notes peer review documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. What means are available for firms and reviewers to provide documentation to the administering entity, and who is authorized to submit such documentation?

Interpretation — Firms and reviewers should provide all peer review documentation to the administering entity in electronic format.

Firms are required to submit certain peer review information to the administering entity. Reviewed firm representatives that submit peer review documentation to the administering entity on behalf of the firm are required to be a partner in the firm (or an individual with equivalent supervisory responsibilities), and have the appropriate qualifications and understanding to assume responsibility for the completeness and accuracy of such documentation.

Per Interpretation No. 24-1, reviewers are expected to use the materials and checklists developed by the board when performing a review, this includes electronic submission of those materials. Reviewers should also follow Interpretation No. 25-3 to ensure that certain documentation will exclude firm identifying information (for example, firm name, location, and employer identification number) that could link the data back to a firm, firm's client, review or reviewer.

25-1

Question — Paragraph .25 of the standards notes that all peer review documentation should not be retained for an extended period of time after the peer review's completion. How long should peer review documents be retained?

Interpretation — Peer review documentation prepared during system and engagement reviews should be retained by the reviewing firm, or association in an association-formed review team until 120 days after the peer review is completed. The administering entity should retain the peer review documentation as follows:

Most Recently Completed [fn 4] **Peer Review Documents (as applicable)**	**Retention**	
Enrolled Firms [fn 5]	***Unenrolled Firms*** [fn 6]	
• Finding for Further Consideration Form(s) • Firm Representation Letter • Letter(s) requesting the reviewed firm's completion of an implementation plan • Supporting documents evidencing completion of corrective actions and implementation	120 days after completion of subsequent review	42 months after the resignation, drop, or termination date (see the following for determining termination date)

[fn 4] Completion is defined by Interpretation No. 25-2.

[fn 5] Enrolled firms are defined by the standards (PRP sec. 1000.02).

[fn 6] Unenrolled firms, for the purpose of this interpretation, are firms not enrolled AICPA Peer Review Program due to resignation, drop, or termination from the Program.

plans • Engagement Letter (CART reviews only) • Letter(s) relating to peer review document recall considerations		
When a firm receives a report with a pass rating: • Peer review report • Letter notifying the firm that its peer review has been accepted • Letter(s) notifying the firm that the implementation plan has been completed	120 days after completion of subsequent pass review	42 months after the resignation, drop, or termination date
When a firm receives a report with a non-pass rating: • Peer review report • Letter of response • Letter notifying the firm that its peer review has been accepted • Letter(s) indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions • Letter(s) notifying the firm that the implementation plan has been completed • Letter(s) notifying the firm that required actions have been completed	120 days after completion of a subsequent review with a pass report, not to exceed three peer reviews	42 months after the resignation, drop, or termination date

• All other documents	*Completion Date for the Review:* • 120 days after completion of the review	*Completion Date for the Review:* • 120 days after completion of the review
No Completion Date for the Review: • 42 months after the resignation, drop, or termination date		

The administering entity's peer review committee or the board may indicate that any or all documentation for specific peer reviews should be retained for a longer period of time than specified in the preceding paragraphs.

If a firm has been enrolled in an peer review program administered by an entity approved by the board fully involved in the administration of the AICPA Peer Review Program but has not undergone a peer review in the last three years and six months since its last peer review because the firm has not performed engagements and issued reports requiring it to have a peer review, the documents previously noted should still be retained for 42 months after completion of the previous peer review. The administering entity may also choose to retain the administrative documents, as applicable.

If a firm's most recent peer review was under the auspices of another peer review program administered by an entity not approved by the board, even if conducted in accordance with the AICPA *Standards for Performing and Reporting on Peer Reviews*, the documents are not required to be retained for purposes of the Program.

25-2

Question — The standards and interpretations refer to *acceptance* and *completion* of peer reviews in several contexts, such as in relation to the retention policy for peer review documentation (paragraph .25 of the standards), when a review can be publicized (paragraph .146) and the qualifications for service as a peer reviewer (paragraph .31*c*) and an RAB member (Interpretation No. 132-1). Is there a difference between the acceptance and completion dates of a peer review?

Interpretation — There is no difference in those cases in which the report and letter of response thereto, if applicable (peer review documents), are presented to the administering entity's peer review committee, and the committee requires no additional corrective action(s) related to the deficiencies or significant deficiencies in a peer review report with a rating of *pass with deficiency(ies)* or *fail* by the reviewed firm, nor are there any revisions necessary to the peer review documents. In this circumstance, the date that the committee (or technical reviewer in most cases on an Engagement Review) makes this decision is defined as the acceptance date, and is also defined as the completion date of the peer review. The acceptance date is noted in a letter from the administering entity to the reviewed firm.

There is a difference between the acceptance and completion dates of a peer review when the peer review documents are presented to the committee and the committee does not require any revisions to the peer review documents but does require the reviewed firm to take corrective action(s) related to deficiencies or significant deficiencies in the report. In this circumstance, the acceptance date is defined as the date that the reviewed firm signs the letter from the administering entity agreeing to perform the required corrective action(s). The completion date is then defined as the date the committee decides that the reviewed firm has performed the agreed-to corrective action(s) to the committee's satisfaction and the committee requires no additional corrective action(s) by the reviewed firm. This date is noted in a final letter from the administering entity to the reviewed firm.

In either of the situations described in the preceding paragraphs, the committee may require revisions to any of the peer review documents or have other matters that require resolution. In those cases, a review may not be deemed as accepted nor completed until such date that the peer review document(s) is (are) revised or the matter is resolved to the satisfaction of the committee. When there are required revisions or other matters that require resolution and a follow up action has been requested by the committee, the date of acceptance is the later of the date the required revisions are made or the matters are resolved, OR the date the firm has agreed to the follow up action.

25-3

Question — Interpretation No. 25-1 and paragraph .25 of the standards notes that all peer review documentation should not be retained for an extended period of time after the peer review's completion. May the AICPA retain any peer review documentation (or data derived from that documentation) beyond the relevant documentation retention requirements outlined in Interpretation No. 25-1 (retention requirements)? If so, for what purpose?

Interpretation — Yes, certain peer review documentation may be retained beyond the retention requirements if such documentation is needed to comply with peer review standards and guidance. For example, the peer review report may be retained in order to track the number of consecutive non-pass peer review reports a firm has received.

In addition, the AICPA may retain data derived from peer review documentation beyond the aforementioned retention requirements in order to monitor trends in peer review, facilitate research and otherwise promote quality in the accounting and auditing services provided by CPA firms. Any such data provided to others will exclude firm identifying information (for example, firm name, location, and employer identification number) that could link the data back to a firm, firm's client, review or reviewer. This data may only be provided to parties outside of the AICPA with the firm's consent. The AICPA will describe the nature of the data which may be shared and the reason behind the request when asking for consent from firms.

Associations of CPA Firms and Association Formed Review Teams

26-1

Question — Paragraph .26 of the standards states that a review team may be formed by a firm engaged by the firm under review (a firm-on-firm review) or an association of CPA firms authorized by the board

to assist its members in forming review teams (an association formed review team). What criteria have been established by the board for association formed review teams?

Interpretation — Associations of CPA firms include any group, affiliations, or alliances of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services. Firms and other entities in the association cooperate with one another to enhance their capabilities to provide professional services.

A member firm of an association may conduct a peer review of another association-member firm enrolled in the program, provided that the association is not a network as defined by Interpretation No. 26-2 and the association receives annual approval from the board. The National PRC administers this process on behalf of the board. The association must submit an AIF to the National PRC that must be approved by the board prior to any aspect of the review being planned, scheduled, or performed.

The AIF contains questions regarding general information about the association, independence matters, and whether the association requests to be approved to assist its members in the formation of review teams, provide technical assistance to such review teams, or do both. All review teams must still be approved by the administering entity. The AIF is subject to oversight by the board.

The approval of the AIF specifically relates to AICPA members of an association having the ability to perform peer reviews of other firms in the same association enrolled in the program. Furthermore,

a. Annual approval of the AIF does allow, where the association is not a network and has answered the specific questions making such a request, the association the ability to assist its members in the formation of review teams (association formed review teams) or to provide technical assistance to such review teams.

b. The reviewed firm and administering entity, not the association, is ultimately responsible for ensuring that its peer review is scheduled, performed, and completed in a timely manner.

c. Annual approval of the AIF does not grant the association the authority to administer the program; therefore, the association is not deemed an approved administering entity.

d. Approval of the AIF is not an endorsement of, approval of, or has any applicability to a separate peer review program that an association may conduct or administer for firms not enrolled in the program.

e. If the association makes any representations (in brochures, directories, pamphlets, websites, or any marketing or selling materials regarding its member firms in obtaining engagements), in order for the AIF to be approved such representations must be objective and quantifiable. The purpose of this requirement is to mitigate the appearance of a lack of independence. The board does not prohibit an association from making representations that are not objective or quantifiable; however, associations that make the decision to do so should understand that its member firms will then be unable to peer review other association members.

For a member firm of an association to conduct peer reviews of another association-member firm enrolled in the program, in addition to the independence requirements related to network firms appearing in Interpretation No. 26-2 and other peer review independence requirements, the association and its member firms must meet the following independence criteria:

a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. For purposes of this requirement, *professional services* include accounting, tax, personal financial planning, litigation support, and professional services for which standards are promulgated by bodies designated by AICPA Council.

b. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements unless the representations are objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.

c. Referral or participating work among member firms is arranged directly by the firms involved.

An association may voluntarily elect to have an independent QCM review of its system of quality control to develop and maintain QCM used by its member firms (see paragraphs .154–.205 of the standards). An association may wish to have such a review to enable its member firms that use the materials it develops to have more efficient peer reviews. Associations that elect to have this type of review should consult with AICPA program staff.

An association formed review team,

a. requires that a majority of the review team members, including the team captain in a System Review, and all members in an Engagement Review, be from association member firms.

b. performs peer reviews in accordance with these standards, interpretations, and other guidance and the peer review report is issued on the letterhead of the team captain or review captain's firm and signed in the name of the team captain or review captain's firm (not the association).

Peer reviews performed by association-formed review teams are subject to oversight by the board and the administering entities and other bodies agreed upon by the board and the administering entity.

26-2

Question — How are the terms network and network firm defined for peer review purposes? Is it appropriate for a network firm to perform the peer review of a firm within the same network?

Interpretation — Consistent with the "Network and Network Firms" interpretation (ET sec. 1.220.010), for peer review purposes, a network is an association of entities that includes one or more firms that cooperate for the purpose of enhancing the firms' capabilities to provide professional services and share one or more of the following characteristics:

a. The use of a common brand name (including common initials) as part of the firm name.

b. Common control (as defined by GAAP) among the firms through ownership, management, or other means.

c. Profits or costs, excluding costs of operating the association; costs of developing audit methodologies, manuals and training courses; and other costs that are immaterial to the firm.

d. Common business strategy that involves ongoing collaboration amongst the firms whereby the firms are responsible for implementing the association's strategy and are held accountable for performance pursuant to that strategy.

e. Significant part of professional resources.

f. Common quality control policies and procedures that firms are required to implement and that are monitored by the association.

A network firm is a firm or other entity that belongs to a network. This includes any entity, including another firm that the network firm, by itself or through one or more of its owners, controls, as defined by GAAP is controlled by; or is under common control with. For a further description of the characteristics of a network and network firm, reference the "Network and Network Firms" interpretation (ET sec. 1.220.010).

It is not appropriate for a network firm to perform the peer review of a firm within the same network. A network firm is not considered to be independent with respect to other firms within the same network. The owners and employees of network firms are also not considered to be independent with respect to other firms within the same network. Whether an association is a network and whether an entity is a network firm should be applied consistently by all members of the association. Due consideration should be given to what a reasonable and informed third party would be likely to conclude after weighing all the specific facts and circumstances.

Organizing the System or Engagement Review Team

30-1

Question — Paragraph .30 of the standards states that a System Review team, a review captain on an Engagement Review, and, in unusual circumstances, any additional reviewers on an Engagement Review ordinarily should be approved by the administering entity prior to the planning and commencement of the review. How is this accomplished?

Interpretation — The firm and the reviewer should submit scheduling information as required by the administering entity, and the System Review team, a review captain on an Engagement Review, and, in unusual circumstances, any additional reviewers on an Engagement Review should be approved by the administering entity prior to the commencement of the review. The administering entity will consider various factors, including the industries of the engagements of the firm, its size, whether or not the review is administered by the National PRC, and other factors in relation to the knowledge and experience

of the members of the review team to determine if the team has the appropriate qualifications and capability to perform the review.

Qualifying for Service as a Peer Reviewer

31-1

Question — Paragraph .31 of the standards provides minimum requirements to serve as a peer reviewer. Are there exceptions allowed for any of the requirements?

Interpretation — Peer reviewers should meet the minimum requirements described in paragraph .31 of the standards. However, in rare circumstances, an exception may be approved by the AICPA prior to commencement of the peer review. The request must be made in writing and should thoroughly explain why the exception should be approved.

31-2

Question — I recently left my firm where I performed peer reviews and started my own firm. May I continue performing peer reviews in my new firm?

Interpretation — Maybe. Peer Review Standards allow for a transition period. The transition period begins with the earlier of the date you left your previous firm or when you start or become associated with your new firm. The transition period ends with the earlier of 18 months from the beginning date or the peer review due date of your new firm.

Your previous firm should have received a *pass* peer review report. You should also meet all of the other required qualifications (see standards paragraph .31 for complete details):

- A partner or manager with supervisory responsibilities
- Currently active (presently involved) in the accounting or auditing (A&A) function of your firm or carrying out a quality control function on the firm's A&A engagements (see Interpretation No. 31b-1)
- Your firm must be enrolled in the Peer Review Program

31-3

Question — I brought several clients over to my new firm with the same practice areas and industry codes as I previously had with my old firm. How do I get approved to perform peer reviews?

Interpretation — First, you need to submit the *AICPA Peer Review Program Enrollment Form* or the *Peer Review Program Change Form*, as applicable, to your administering entity. Then, you contact the Peer Review Hotline at 919.402.4502 to obtain approval as a reviewer with a new firm (provided you meet the qualifications to be a reviewer).

31-4

Question — I was approved to perform peer reviews before I left my old firm, but the reviews have not commenced yet. Since I do not have any clients in my new firm and I no longer meet the qualifications to serve as a peer reviewer, what do I do?

Interpretation — Contact the reviewed firm(s) and the administering entity immediately. You should also update your reviewer resume to reflect your experience. Because you currently do not have any clients in your new firm, you are not eligible to include any experience level codes on your reviewer resume.

31-5

Question — I performed a peer review during a time when I did not meet the qualifications to serve as a peer reviewer. How does this impact the peer review I performed?

Interpretation — Because you did not meet the qualifications to perform a peer review at the time it was performed, the peer review committee (committee) of the administering entity may decide that oversight (onsite or offsite) should be performed at your expense. If the review has already been accepted, it may be necessary for you or the committee to consider recalling the previously accepted peer review documents. This could put the reviewed firm in jeopardy of its practice unit or firm license in states where they are licensed.

31b-1

Question — Paragraphs .31*b* and *c* of the standards state that an individual serving as a peer reviewer should be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program and the firm (or all firms if associated with more than one firm) that the member is associated with should have received a report with a peer review rating of *pass* for its most recent System Review or Engagement Review that was accepted timely, ordinarily within the last 3 years and 6 months. Does this apply to all firms the individual is associated with? Is the individual still qualified to serve as a reviewer if the individual starts, or becomes associated with, a newly formed firm (or a firm that has not had a peer review)?

Interpretation — If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received a report with a peer review rating of *pass* for its most recent System Review or Engagement Review that was accepted timely, ordinarily within the last three years and six months.

An individual who was previously a System Review team captain, a reviewer in a System Review or a review captain in an Engagement Review that starts or becomes associated with a newly formed firm (or a firm that has not had a peer review) may continue to serve in such capacity during a transition period. The transition period begins with the earlier of the dates of disassociation from the previous firm or when the individual starts or becomes associated with a new firm. The transition period ends with the earlier of 18 months from the beginning date or the peer review due date of the new firm. In no circumstances will the transition period exceed 18 months. The previous firm should have received a report with a peer review rating of *pass* on its most recently accepted peer review, and the individual should

meet all of the other qualifications for service as a team captain or reviewer in a System Review or review captain in an Engagement Review. An individual who was previously a team captain or reviewer in a System Review qualified to perform peer reviews administered by the National PRC that starts or becomes associated with a newly formed firm (or a firm that has not had a peer review), or a firm enrolled in the program that has undergone a peer review administered by another administering entity, may serve as a team captain or a reviewer on a review administered by the National PRC under the same conditions and requirements mentioned previously.

31b-2

Question — What if the individual was a sole practitioner that has given up his or her own accounting and auditing practice, but is now serving in the capacity of an external quality control or concurring reviewer for other enrolled firms?

Interpretation — If the individual was a sole practitioner that has given up his or her own accounting and auditing practice, but is now serving in the capacity of an external quality control or concurring reviewer for other enrolled firms, he or she would meet many of the minimum requirements in paragraph .31*b* of the standards, except for being a professional employee of the firm the work is being performed for, and therefore he or she would not meet the qualification requirements to serve in the capacity of a peer reviewer.

31b-3

Question — If the individual is associated with a firm who received a report with a peer review rating of *pass with scope limitation* on its most recent System Review or Engagement Review, does this meet the qualification requirements to be a peer reviewer?

Interpretation — There are three different grades which can be considered passing: *pass, pass with scope limitation*, and *pass with deficiencies*. Only the first two (*pass* and *pass with scope limitation*) are acceptable grades in order to qualify as a peer reviewer.

31b-4

Question — What further qualifications are necessary to perform a peer review of a firm whose review is required to be administered by the National PRC?

Interpretation — In order to be qualified to perform a peer review of a firm required to be administered by the National PRC, ordinarily a peer reviewer must currently be with a firm whose most recent review was administered by the National PRC. This is not a requirement for a peer reviewer on a review of a firm that elects (but is not required) to have their peer review administered by the National PRC.

31b-5

Question — Paragraph .31*b* of the standards states that, 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 a firm's accounting or auditing engagements or carrying out a quality control function on a firm's accounting or auditing engagements. How is a "quality control function" defined?

Interpretation — In the context of standards paragraph .31*b*, a quality control function is defined as performing an Engagement Quality Control Review as part of the Engagement Performance element of a firm's system of quality control or supervising or performing the inspection as part of the Monitoring element of a firm's system of quality control. Definitions of these terms appear in QC sec. 10.

31b-6

Question — Paragraph .31*b* of the standards states that 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. What factors should a reviewer consider when determining whether their day-to-day involvement is sufficiently comprehensive?

Interpretation — The reviewer should consider whether he or she is currently involved in supervising (or carrying out a quality control function on) the same levels of service of accounting or auditing engagements they will review. For example,

a. a reviewer of auditing engagements should be presently involved in supervising (or carrying out a quality control function on) a firm's auditing engagements;

b. a reviewer of examination engagements performed under the SSAEs should be presently involved in supervising (or carrying out a quality control function on) a firm's examination engagements; and

c. a reviewer of compilation or preparation engagements with disclosures should be presently involved in supervising (or carrying out a quality control function on) engagements with disclosures.

A reviewer that only currently supervises (or carrying out a quality control function on) compilation or preparation engagements should not review audit, attestation, or review engagements.

If a peer reviewer does not meet the preceding qualifications, but believes they possess current knowledge of professional standards applicable to the kind of practice to be reviewed, the peer reviewer may contact the firm's administering entity to justify their qualification, see Interpretation No. 31d-1. Acceptable proof of qualification may include, but is not limited to, CPE certifications, training courses, and evidence of on-the-job training. Reviewer qualifications applicable to industries that have a significant public interest would ordinarily be excluded from this provision.

31b-7

Question — Paragraph .31*b* of the standards uses the term *presently involved* in defining currently active in accounting or auditing functions. What is meant by *presently involved*?

Interpretation — *Presently involved* means currently performing (working on) accounting or auditing engagements in your firm with the intent to undergo a peer review within 18 months from enrollment.

31b-8

Question — If I did not bring any clients over to my new firm, but actively pursuing clients, does this meet the qualification of "presently involved"?

Interpretation — No, it does not. You do not meet the qualifications to serve as a peer reviewer because you are not performing (working on) accounting or auditing engagements and will likely not undergo a peer review within 18 months of enrollment.

31b-9

Question — I have signed engagement letters, but have not performed any work yet. Does this meet the qualification of "presently involved?"

Interpretation — No, it does not. You do not meet the qualifications to serve as a peer reviewer.

31b-10

Question — I was team captain qualified when I was with my old firm, but have only issued reports on reviews of financial statements in my new firm. Could I still perform a system review?

Interpretation — No. In accordance with Peer Review Standards paragraph .31*b*, you would only be qualified to perform engagement reviews for firms that have the same type of engagements.

31c-1

Question — Paragraph .31*c* of the standards indicates that a peer reviewer should be associated with a firm (or all firms if associated with more than one firm) that has received a report with a peer review rating of *pass* for its most recent System or Engagement Review that was accepted timely, ordinarily within the last three years and six months. What is meant by "accepted timely, ordinarily within three years and six months?"

Interpretation — Peer reviewers are expected to have their own firm's peer review performed timely. They are also expected to cooperate with the program in all matters related to the peer review that could impact the firm's enrollment in the program. The peer review working papers and report for reviewers' firms should be submitted on or before the extended due date, ordinarily within six months of the peer review year end. If a valid extension is approved by the administering entity, the review working papers and report should be submitted by the approved extended due date. The review should be accepted by the administering entity ordinarily within 120 days of receipt of the working papers and report from the reviewer. Indications of his or her firm's noncooperation with the program may disqualify the peer reviewer from being able to schedule and perform reviews until the firm's peer review has been accepted.

31d-1

Question — Paragraph .31*d* of the standards states that an individual serving as a peer reviewer should possess current knowledge of professional standards applicable to the kind of practice to be reviewed, including quality control and peer review standards. This includes recent experience in and knowledge about current rules and regulations appropriate to the level of service applicable to the industries of the

engagements the individual will be reviewing. How may such knowledge be obtained, and is there a minimum amount of CPE required to be a peer reviewer?

Interpretation — Such knowledge may be obtained from on-the-job training, training courses, or a combination of both.

If the administering entity determines that the peer reviewer does not have such experience, the peer reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The administering entity has the authority to decide whether a reviewer or review team's experience is sufficient and whether they have the capability to perform a particular review whether related to high-risk engagements or other factors.

The fundamental purpose of CPE is to maintain or increase, or both, professional competence. AICPA members are required to participate in 120 hours of CPE every 3 years. In order to maintain current knowledge of accounting, auditing, and quality control standards, peer reviewers should obtain at least 40% of the AICPA required CPE in subjects relating to accounting, auditing, and quality control. Peer reviewers should obtain at least 8 hours in any 1 year and 48 hours every 3 years. The terms *accounting*, *auditing*, and *quality control* should be interpreted as CPE that would maintain current knowledge of accounting, auditing, and quality control standards for engagements that fall within the scope of peer review as described in paragraphs .06–.07 of the standards.

Peer reviewers have the responsibility of documenting their compliance with the CPE requirement. They should maintain detailed records of CPE completed in the event they are requested to verify their compliance. The reporting period will be the same as that maintained for the AICPA.

31f-1

Question — Paragraph .31*f* of the standards states that an individual serving as a peer reviewer on a System or Engagement Review should have provided the administering entity with information that accurately reflects the qualifications of the reviewer, including recent industry experience, and is updated timely. How is this accomplished?

Interpretation — Ordinarily, an individual serving as a reviewer on a System or Engagement Review should have completed a peer reviewer resume in accordance with guidance issued by the board that is updated timely and accurately reflects the qualifications of the reviewer, including recent industry experience. This may also be accomplished by providing similar information to those performing an on-site oversight under the direction of a National PRC panel.

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 as follows. However, these additional qualifications do not apply to must-cover engagements. The peer reviewer should adhere to the general reviewer qualifications in those areas.

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; performing Engagement Quality Control Reviews on engagements in the must-select industry or area in his or her own firm; or performing the inspection of engagements in the must-select industry or area as part of his or her firm's monitoring 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 Governmental 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 paragraph .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.

32-1

Question — Paragraph .32 of the standards states that a 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. What do those responsibilities include?

Interpretation — Team members should be brought on to a team when the team captain, or the review captain in limited circumstances, does not possess the adequate qualifications necessary in order to perform the review of engagements within certain industries or type of engagement in the reviewed firm's practice. In addition, there may be reasons, for instance depending on the size of the firm and its practice, that team members may be brought onto a team to assist the team captain in performing the review in an efficient and effective manner. Whether the team member is brought onto the team to cover certain industries or types of engagement, or just to assist the team captain in performing the review, it is still the responsibility of the team captain or review captain to ensure the team member selected has the appropriate qualifications and to supervise and review the work of the team member. The team captain or

review captain is essentially relying on the work of the team member and accepting it as his or her own. The team captain or review captain should ensure that all of the working papers (engagement questionnaires, MFCs, and so on) completed by the team member are reviewed by the team captain or another appropriately qualified team member, and follow up with the reviewed firm or team member as necessary. By signing off on the Summary Review Memorandum or Review Captain Summary, the team captain or review captain is approving the team member's working papers and accepting responsibility for the work of the team member.

Team members may review their engagements prior to the team captain or review captain beginning their field work. Reviews of engagements that are performed by team members at locations other than the reviewed firm's office are acceptable, but the quality of work must be at the same level as it would be had the review been performed at the reviewed firm's office. In these situations, a review is considered to have commenced when the team member begins the review of engagements (if this is prior to the team captain or review captain beginning their fieldwork). All engagement checklists, MFC and FFC forms should be signed off by the team member prior to the exit conference. The team captain or review captain should consider if the team member should participate in the exit conference.

33-1

Question — Paragraph .33 of the standards states that a team captain in a System Review or a review captain in an Engagement Review should "have completed peer review training that meets the requirements established by the board." Interpretation No. 132-1 states that each RAB member should demonstrate proficiency in the standards, interpretations, and guidance of the program. Interpretation No. 132-1 also states that a technical reviewer charged with the responsibility for performing technical reviews should meet the requirements of the team captain or review captain training requirements established by the board. What peer review training meets the requirements established by the board and what are the criteria for demonstrating proficiency?

Interpretation — The peer review training and the criteria for demonstrating proficiency in the standards, interpretations, and guidance of the program is established from time to time by the board. Those criteria are located on the Peer Review page of the AICPA website.

34-1

Question — Paragraph .34 of the standards discusses that a peer reviewer or reviewing firm may have received communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of the peer reviewer or reviewing firm's accounting and auditing practice. A peer reviewer or reviewing firm may also have received notifications of limitations or restrictions on the peer reviewer's or reviewing firm's ability to practice. How do these allegations or investigations, limitations or restrictions, or both, affect the reviewer's or reviewing firm's ability and qualifications to perform the peer review?

Interpretation — The peer reviewer and reviewing firm should notify the relevant administering entity of any communications relating to allegations or investigations from regulatory, monitoring, or enforcement bodies in the conduct of accounting, audit, or attestation engagements performed by the re-

viewer. For these purposes, an allegation or investigation is defined as a formal declaration, statement, or other similar assertion, the validity of which has not been established, indicating that there may be deficiencies in the reviewer or reviewing firm's compliance with a regulatory, monitoring, or enforcement body's (regulatory body) rules (procedures, laws, professional standards, or practices).

The peer reviewer and reviewing firm should notify the AICPA technical staff, then their relevant administering entity, of any limitations or restrictions on the peer reviewer's or reviewing firm's ability to practice. For these purposes, a limitation or restriction is a corrective or disciplinary action or sanction imposed on a reviewer or reviewing firm by a regulatory body). Examples include constraint of scope or volume of accounting and auditing engagements, required periodic reporting to the regulatory body, preissuance reviews of engagements, or additional peer review or professional education requirements.

The notifications should occur prior to the peer reviewer or reviewing firm's being engaged to perform a peer review, or immediately (if after engaged). The objective of the reviewer or reviewing firm informing the relevant administering entity or AICPA technical staff (as applicable) of such allegations or investigations, limitations or restrictions, or both, is to enhance the program's oversight process, which includes ensuring that peer reviewers and reviewing firms are appropriately qualified to perform reviews.

The fact that a reviewer or reviewing firm has received communication(s) relating to allegations or investigations does not automatically mean that he, she, or it is ineligible to perform peer reviews. However, there could be situations where the nature, significance, or pervasiveness of the alleged deficiencies, or an already existing preponderance of evidence, would necessitate immediate action in order to address the public interest. The administering entity's peer review committee will consider and investigate, as deemed necessary, the specific circumstances, including whether any action, including performing oversight on the reviewer or reviewing firm, is appropriate. This decision can only initially be appealed to the administering entity's peer review committee. For actions previously appealed to the committee, if the reviewer or reviewing firm disagrees with the action(s), he or she may appeal the decision by writing the board, explaining why he or she believes that the action(s) are unwarranted. The board will review and consider the request and respond to it as necessary and appropriate.

However, an individual may not serve as a peer reviewer if his or her ability to practice public accounting has been limited or restricted in any way (including any specific industry restrictions) by the regulatory body beginning on the date he or she is notified by the regulatory body of the limitation or restriction, until it has been removed. If the limitation or restriction has been placed on the reviewer's firm, or one or more of its offices, then the board will consider and investigate the specific circumstances, including how the limitation or restriction relates to the firm's accounting and auditing practice and personnel, to determine whether any of the individuals associated with the firm may serve as reviewers.

The reviewer, reviewing firm, the relevant administering entity, or the AICPA technical staff may receive notification or knowledge of a limitation or restriction on a reviewer or reviewing firm when a review is in different stages (scheduling, commencement, fieldwork, acceptance or completion, within working paper retention period or not). In these circumstances, the board will consider various factors in determining if the review should be rescheduled, oversighted or other additional procedures performed, or a new review performed.

34-2

Question — What if a reviewer or reviewing firm fails to notify the relevant administering entity or AICPA technical staff, as applicable, of any such allegations or investigations, limitations or restrictions, or both, relating to the conduct of his, her or its performance of accounting, audit, or attestation engagements within the specified time requirements?

Interpretation — If a reviewer or reviewing firm fails to notify the relevant administering entity or AICPA technical staff, as applicable, of such allegations or investigations, limitations or restrictions, or both, within the specified time requirements of "prior to being engaged to perform a peer review, or immediately, (if after engaged)" the reviewer or reviewing firm is not cooperating with the program. The board will consider and investigate, as deemed necessary, what actions should be taken in the specific circumstances. These actions may include, but are not limited to, on-site oversight at the reviewer's expense, permanent removal from the list of qualified peer reviewers and referral of any AICPA members to the AICPA's Professional Ethics Division for violating the AICPA Code of Professional Conduct, if applicable.

34-3

Question — What are some types of communications of allegations or investigations, or notifications of limitations or restrictions, that are appropriately related to meeting the objectives described in this interpretation?

Interpretation — There are many types of communications and notifications that are appropriately related to meeting the objectives described in this interpretation. See Interpretation No. 181-1b-1 for a list, which is not intended to be all-inclusive, that represents examples of the types of organizations where communications of allegations or investigations or notifications of limitations or restrictions would be relevant to meeting the objectives of the requirement.

Qualifying for Service as a Specialist

35-1

Question — Paragraph .35 of the standards states that 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. At what point is a specialist going beyond a consulting capacity on the peer review?

Interpretation — The specialist is going beyond a consulting capacity when he or she prepares any other peer review documentation beyond preparing and completing the engagement checklist and MFC forms. When MFC forms are prepared for the engagement the specialist is reviewing, the specialist should plan on being available during the exit conference.

35-2

Question — If a review team uses a specialist to prepare and complete the engagement checklist and MFC forms for a must select engagement as described in Interpretation No. 63-1, is another team member required to have experience with the must select industry?

Interpretation — Yes. An approved team member with the appropriate experience is required to review all must select engagements except examinations of service organizations (SOC 1 and SOC 2) engagements. A specialist meeting criteria established by the AICPA may be approved to assist the team in reviewing SOC 1 or SOC 2 experience. A list of preapproved specialists will be maintained by the AICPA.

When a specialist is used, the team captain, as always, is responsible for supervising and conducting the review, communicating the review team's findings to the reviewed firm and administering entity, preparing the report on the review, and ensuring that peer review documentation is complete and submitted to the administering entity on a timely basis. The team captain should supervise and review the work performed by the specialist. The team captain will furnish instructions to the specialist regarding the manner in which materials and other notes relating to the review are to be accumulated to facilitate summarization of the review team's findings and conclusions. The specialist may be required to be available or participate in the exit conference.

Other Planning Considerations

39-1

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

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

40-1

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

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

to place reliance on regulatory or governmental oversight results. The team captain should consider and document the following factors regarding the procedures and results of regulatory or governmental oversights and communications from regulatory or governmental bodies:

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

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

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

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

- *The firm's responsiveness to regulatory or governmental oversight results*. The team captain should consider the degree of the firm's responsiveness to oversight findings and other communications, as evidenced by the remediation planned or taken. Remediation efforts by the firm may impact industries that are subject to peer review and can be useful in assisting the team captain with considering the design of the firm's system of quality control or compliance with it.

The team captain should document this consideration in the risk assessment during the planning of the review.

- *The size of the firm relative to its specialized industry practice(s)*. The team captain should consider the relative significance of the specialized industry practice(s) subject to regulatory oversight to the firm's total practice in determining the relevance of the regulatory oversight results to the peer review. The team captain should document this consideration in the Summary Review Memorandum (when applicable).

40-2

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

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

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

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

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

Understanding the Firm's System of Quality Control

42-1

Question — Paragraph .42 of the standards requires the review team to obtain a sufficient understanding of the reviewed firm's system of quality control. How should the review team address elements of the system that reside outside of the firm?

Interpretation — The review team should inquire of the firm regarding elements of the system of quality control residing outside of the firm, for instance, membership in associations, joint ventures, non-CPA owned entities, alternative practice structures, arrangements with outside consultants, third party QCM, or CPE (including whether they are peer reviewed) and other. The inquiries should include how they influence the firm's system of quality control, for instance by providing consultation opportunities, CPE, and monitoring services. These elements should be considered and documented within the risk assessment.

42-2

Question — How should the review team evaluate the firm's quality control policies and procedures for the adequacy of the QCM used by the reviewed firm?

Interpretation — To plan the review, the review team should obtain a sufficient understanding of the reviewed firm's system of quality control, including how the firm uses QCM to promote consistency in the quality of engagement performance.

Firm's Policies and Procedures

As a part of obtaining the understanding of the system of quality control, the review team should understand the firm's policies and procedures for adopting, developing, updating, modifying, and maintaining QCM that are purchased from a third party or developed internally and determine if those policies and procedures are appropriately designed and implemented.

Reliability

The review team should understand the firm's policies and procedures for determining the reliability of the QCM used by the reviewed firm and determine if those policies and procedures are appropriately designed and implemented. The review team should also determine that the firm's QCM are reliable, whether developed by a third party or internally developed.

If the QCM were subject to a QCM review under AICPA Peer Review Standards (QCM review), or an examination of QCM under the SSAEs, the report results should be considered as per Interpretation No.

42-3. The report may be obtained from the provider or the reviewed firm. Some providers will choose to make the report available on the AICPA's website.

If the QCM were not subject to a QCM Review or a QCM Examination, then the team captain should consult paragraphs .175–.176 for the procedures typically performed in assessing the reliability of QCM for a QCM Review. This step applies whether the QCM were obtained from a third party or were internally developed.

The overall objective of those procedures is to determine whether the materials are reliable aids to assist firms in conforming with all those components which are integral to the professional standards the materials purport to encompass. The procedures in paragraphs .175–.176 need to be adapted to the review team's use during a peer review of a reviewed firm. The team captain should use professional judgment in determining the extent of the procedures that need to be performed to evaluate the reliability of the QCM.

Suitability

The review team should understand the firm's policies and procedures for determining the suitability of the QCM used by the reviewed firm, and determine if they are appropriately designed, implemented, and suitable for the firm. Examples of factors to be considered include whether the QCM

- cover the practice areas and industries of the firm.
- are used for the intended type of client and users.
- are used by the firm as intended by the QCM's instructions and guidance (see Interpretation No. 176-1 for further guidance).
- contain an appropriate level of explanatory guidance for the users.
- are updated to reflect current professional standards.

Any weaknesses noted in the system of quality control as a result of the preceding procedures should be considered when the team captain assesses other aspects of the firm's system of quality control. This includes the firm's compliance with quality control standards established by the AICPA and how the firm's policies and procedures identify and mitigate the risk of material noncompliance with applicable professional standards. The weaknesses should also be considered when the team captain prepares the risk assessment, determines scope, performs functional testing, concludes on the peer review, and considers the systemic causes for matters, findings, deficiencies and significant deficiencies.

42-3

Question — Many firms rely on third party QCM as integral portions of the firm's system of quality control. Some third-party providers elect to subject their QCM to a QCM review under AICPA Peer Review Standards, or an examination of QCM under the SSAEs. How should the review team of a reviewed firm evaluate the results of a QCM review or examination report on QCM under the SSAEs in its consideration of the "reliability" of a reviewed firm's QCM as discussed in Interpretation No. 42-2?

Interpretation —

QCM Reviews Under AICPA Peer Review Standards

An independent QCM review entails an assessment of the provider's system of quality control to develop and maintain the QCM, and an assessment of the resultant materials.

The QCM review report includes opinions on the

- provider's system to develop and maintain reliable aids (see paragraph .175).
- reliability of the specific QCM covered by the review.

The review team should obtain the QCM review results (that is, the report or letter of response, if applicable) to consider the effect on the reviewed firm's system of quality control. The report may be obtained from the provider, or the reviewed firm. Some providers will choose to make the report available on the AICPA's website.

The review team should compare the specific QCM used by the firm with the materials and elements identified in the QCM report. The provider determines which QCM are included in the scope of the QCM review and may not include all material published by the provider in the scope of the QCM review. The specific QCM that is the subject of the QCM review report will be identified in the first paragraph of the QCM review report or in an addendum to the report. If the provider obtained a QCM review, but the specific QCM used by the reviewed firm were not included in the scope of the QCM review report, the review team will need to perform procedures to evaluate the reliability of the QCM. See Interpretation No. 42-2 for additional information.

Other scoping factors to consider include the following:

- The QCM review report is applicable to the different formats or media through which it could be made available or marketed (for example, print or electronic form), unless specified in the QCM review report.
- QCM will often have different elements, such as written guidance, practice aids, letter templates, illustrative completed aids or templates and CPE modules. The QCM report will identify specific exclusions or inclusions if only a particular element or portion of a guide (for example, practice aids) is included in the scope of the QCM review.

The review team should also consider the report rating of the QCM review as it relates to the QCM used by the firm.

- If the provider received a *pass* report, rating, ordinarily, these results will help lower control risk. This should be reflected in the review team's discussion of control risk in the overall peer review risk assessment.

- If the provider received a *pass with deficiencies* or *fail* report rating, the review team should first determine whether the deficiency(ies) affected the reliability of the QCM used by the firm and the effect of that deficiency.

  — If a deficiency affects the reliability of QCM used by the reviewed firm, the review team should determine whether the reviewed firm has mitigated the risk that its reliance on the QCM may result in the firm's failure to address one or more integral components of professional standards in its performance of audit or attest engagements.

  — If a deficiency is in the provider's system of quality control but does not directly affect the separate opinion on the reliability of the QCM, or is specific to QCM not used by the reviewed firm (for example, a deficiency related to an employee benefit plan manual, but the firm only uses a construction manual from that provider), it may not affect the reliability of the QCM used by the reviewed firm.

The evaluation of the QCM review report and its effect on the reliability of the QCM used by the reviewed firm should be fully explained and documented in the discussion of control risk in the overall peer review risk assessment.

The review team will also need to consider the effect on the scope of the peer review if the firm relied on QCM that is not reliable.

If applicable, the review team should review the definitions of deficiencies and significant deficiencies in QCM reviews provided in paragraph .178 to further understand the effect on the reviewed firm.

The review team should always obtain the most recently accepted QCM review report and consider (*a*) the version date of the QCM used relative to the period covered by the QCM review report and (*b*) the amount of time that has passed since the period covered by the QCM review report in determining the degree of reliance that can be placed on the QCM review results.

Factors to consider include the following:

- The issuance of new professional standards
- Changes in regulatory requirements
- Any substantial changes or updates to the materials

Regardless of the degree of reliance placed on the provider's QCM review results, the review team is still responsible for determining which forms, checklists, or programs are used by the reviewed firm as a part of its system of quality control, how often the materials are updated, the degree of reliance that the reviewed firm placed on the QCM and assessing the reviewed firm's compliance with the use of the QCM. The results of the provider's QCM review should be considered in the assessment of control risk and be documented in the risk assessment.

These considerations and their effect on the review team's evaluation of QCM should be documented in the peer review risk assessment.

For additional information on QCM reviews, please see paragraphs .154–.204 and appendix A of the standards.

Examination of QCM Under the SSAEs

An alternative to a QCM review may be an examination of QCM under the SSAEs (examination) (See Interpretation 156-1). The effect of the examination on the peer review depends on the scope and results of the examination. The following guidance is based on the examination of QCM utilizing the same guidance as described in paragraphs .154–.155 and .175–.176. Such engagements are not QCM reviews under AICPA Peer Review Standards however the results of such engagements may be used by the review team to evaluate the reliability of the QCM used by the reviewed firm. Procedures to evaluate the results of the examination of QCM under the SSAEs are ordinarily similar to those for a QCM review but different procedures may be necessary based on the nature of the engagement performed.

It is anticipated that the examination of QCM would conclude whether the QCM are reliable based on reliability criteria for QCM that are attached to the examination report.

The review team should obtain the examination report on the QCM so that the review team can consider the effect of the report on the reviewed firm's system of quality control. The report may be obtained from the provider or the reviewed firm. Some providers will choose to make the report available on the AICPA's website.

The review team should compare the specific QCM used by the firm with the materials and elements identified in the examination report. The provider determines which QCM are included in the scope of the examination and may not include all material published by the provider in the scope of the examination. The specific QCM that is the subject of the examination will be identified in the examination report and the provider's written assertion. If the provider obtained an examination, but the specific QCM used by the reviewed firm were not included in the scope of the examination report, the review team will need to perform the procedures to evaluate whether the QCM were reliable. See Interpretation No. 42-2 for additional information.

Other scoping factors to consider include the following:

- The examination report is applicable to the different formats or media through which it could be made available or marketed (for example, print or electronic form), unless otherwise specified.

- QCM will often have different elements, such as written guidance, practice aids, letter templates, illustrative completed aids or templates and CPE modules. The examination report should identify the QCM covered by the report and identify specific exclusions or inclusions if only a particular element or portion of a guide (for example, practice aids) is included in the scope of the examination.

The review team should also consider the type of opinion expressed in the examination report as it relates to the QCM used by the firm.

- If the provider received an *unmodified opinion*, ordinarily, these results help lower control risk. This should be reflected in the peer review team's discussion of control risk in the overall peer review risk assessment.

- If the provider received a *qualified opinion*, adverse opinion, or a disclaimer of opinion, the review team should first determine whether the issue(s) affected the reliability of the QCM used by the reviewed firm and the effect of those issues.

    — If an issue affects the reliability of QCM used by the reviewed firm, the review team should determine whether the reviewed firm has mitigated the risk that its reliance on the QCM may result in the firm's failure to address one or more integral components of professional standards in its performance of audit or attest engagements.

    — If an issue affects the reliability of QCM however is specific to QCM not used by the reviewed firm (for example, an issue related to an employee benefit plan manual, but the firm only uses a construction manual from that provider), it may not affect the reliability of the QCM used by the reviewed firm.

The review team should consider that use of a report on an examination of QCM under the SSAEs may be restricted to users who have sufficient knowledge and understanding of the QCM.

The evaluation of the examination of QCM under the SSAEs report and its impact on the reliability of the QCM used by the reviewed firm should be fully explained and documented in the discussion of control risk in the overall peer review risk assessment. The review team will also need to consider the impact on the peer review scope if the firm fully relied on QCM that are not reliable aids.

The review team should always obtain the most recently issued examination of QCM under the SSAEs and consider (*a*) the version date of the materials relative to the period covered by the report and (*b*) the amount of time that has passed since the period covered by the report in determining the degree of reliance that can be placed on the examination results. The team captain (and reviewed firm) should consider if the QCM used by the reviewed firm was covered by a previously issued examination report. Issues identified during an examination in the QCM version used by the reviewed firm, may not be identified in a later examination report.

Factors to consider include the following:

- The issuance of new professional standards

- Changes in regulatory requirements

The reviewer should consider the differences between a QCM review and an examination of QCM under the SSAEs, and how they affect the team captain's evaluation of the reliability of the QCM:

- Guidance for QCM reviews is included in AICPA Peer Review Standards and includes detailed guidance for the nature of the procedures performed and the results reached. Guidance for an examination of QCM under the SSAEs would fall under SSAE guidance, which does not specifically address QCM reviews.

- QCM reviews are administered by the National PRC, which has established procedures for the:
  - — qualifications and approval of QCM reviewers, including performance monitoring and cooperation matters
  - — oversight of QCM reviews, and acceptance by the National PRC
  - — handling of disagreements and cooperation matters with the provider

Therefore, for an examination of QCM under the SSAEs, the team captain should carefully consider the following to determine how they affect the evaluation of the reliability of the QCM:

- Qualifications of the independent third-party performing the examination
- Nature of the procedures performed including the reliability criteria used
- Scope of the procedures, including which QCM were covered
- Results of the procedures, including any identified issues and their relevance to the reviewed firm

Based on the team captain's professional judgment, the extent of procedures to evaluate the reliability of QCM under Interpretation No. 42-2 may be reduced after considering certain factors identified in this interpretation. Regardless of the degree of reliance placed on the results of the provider's examination of QCM under the SSAEs, the review team is still responsible for determining which forms, checklists, or programs are used by the reviewed firm as a part of its system of quality control, how often the materials are updated, the degree of reliance that the reviewed firm placed on the materials, and assessing compliance with their use. The results of the provider's examination should weigh in the assessment of control risk and be documented in the risk assessment.

These considerations and their effect on the review team's evaluation of QCM should be documented in the peer review risk assessment.

Considering the Firm's Monitoring Procedures

45-1

Question — Paragraph .45 of the standards notes that the review team should obtain a sufficient understanding of the reviewed firm's monitoring policies and procedures since its last peer review, and their potential effectiveness, to plan the current peer review. In doing so, the review team may determine that the current year's internal monitoring procedures could enable the review team to reduce, in a cost-beneficial manner, the number of offices and engagements selected for review or the extent of the functional area review. What are some factors to consider in obtaining an understanding of the firm's monitoring procedures? If the review team plans to consider the current year's internal inspection procedures to reduce the scope of the peer review, what procedures are necessary?

Interpretation — Factors to consider in obtaining the understanding of the firm's monitoring procedures include

a. the qualifications of personnel performing the monitoring procedures.

b. the scope of the monitoring procedures (coverage of functional areas and engagements and the criteria for selecting offices and engagements for review).

c. the appropriateness of the materials used for monitoring procedures (for example, questionnaires or checklists and instructions).

d. the depth of the review of individual engagements, particularly with respect to the review of working papers and coverage of significant areas.

e. the findings of the monitoring procedures, including internal inspections.

f. the nature and extent of reporting and communicating the results of the monitoring procedures.

g. the follow-up of findings resulting from the monitoring procedures.

In making a judgment about the effects that the firm's current year's internal inspection procedures will have on the selection of offices and engagements to be reviewed, the review team should consider the size of the firm and the potential effectiveness of the internal inspection procedures.

If internal inspection procedures were not, or will not be, performed to cover the review year, the review team may not consider the prior year's internal inspection procedures to reduce the scope of the peer review.

If the review team does not plan to consider the reviewed firm's current year's internal inspection procedures to reduce the scope of the peer review, the review team need not necessarily perform the review of any of the engagements on which internal inspection procedures were performed by the reviewed firm. However, the review team may still wish to re-perform the review of a few such engagements to assist the review team in obtaining a better understanding of the effectiveness of the internal inspection procedures performed by the reviewed firm.

If the review team plans to consider the current year's internal inspection procedures to reduce the scope of the peer review, the review team should test the firm's internal inspection procedures at selected offices and on selected engagements. These tests should be sufficient to provide the review team with a basis for determining whether (*a*) the reviewed firm's internal inspection procedures were applied properly in the reviews of individual practice offices and engagements, (*b*) the practice office and Engagement Reviews were carried out conscientiously by competent persons with appropriate expertise and objectivity, and (*c*) the findings from the reviewed firm's internal inspection procedures are indicative of the work performed in the particular office and therefore can be considered by the review team to reach an overall conclusion regarding the reviewed firm's compliance with its quality control policies and procedures. The testing of internal inspection procedures can be performed (*a*) contemporaneously with the reviewed firm's internal inspection procedures (commonly called *piggyback reviews*) or (*b*) after the internal inspection procedures are completed. Because of the insight gained from observing the performance of internal inspection procedures, a review team testing the effectiveness of internal inspec-

tion procedures contemporaneously is generally in a better position to assess the effectiveness of the procedures.

When the review team tests the effectiveness of the internal inspection procedures contemporaneously with the performance by the internal inspection team performing the procedures, the review team should visit selected practice offices during the performance of the internal inspection procedures to (*a*) re-perform the review of a sample of engagements subjected to internal inspection procedures and (*b*) re-perform the review of a sample of the quality control policies and procedures (functional elements) subjected to internal inspection procedures in the office. During the visits, the review team should compare its findings to the internal inspection team's findings and resolve any differences. In addition, if applicable, the review team should attend discussions of engagement findings and the overall office findings.

When the review team tests the effectiveness of the internal inspection procedures after the procedures have been completed, the review team should re-perform the review of a sample of engagements and the quality control policies and procedures (functional elements) subjected to internal inspection procedures in the office(s). The review team should compare its findings to the internal inspection team's findings and resolve any differences.

45-2

Question — Is there more guidance regarding the extent that scope may be reduced, and what factors must be considered and steps performed in order to conclude on the effectiveness? In addition, may a review team apply this same guidance to the involvement of and results from regulatory oversight?

Interpretation — Peer reviewers should refer to guidance on reducing scope included in PRPM section 3100, *Supplemental Guidance*. If, after considering that guidance, the peer reviewer plans on significantly reducing the scope of the procedures he or she will be performing, he or she is required to inform AICPA technical staff during peer review planning.

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

52-1

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

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

Inherent Risk Factors

In assessing inherent risk factors, the reviewer should consider

- circumstances arising within the firm (for example, the firm or individual partners have engagements in several specialized industries);

- circumstances outside the firm that impact the firm's clients (for example, new professional standards or those being applied initially for one or more clients, changes in regulatory requirements, adverse economic developments in an industry in which one or more of the firm's clients operate, or significant developments in the client's organization); and

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

Control Risk Factors

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

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

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

- The relationship of the firm's audit hours to total accounting and auditing hours

- Size of the firm's major engagement(s), relative to the firm's practice as a whole

- Initial engagements and their impact on the firm's practice

- The industries in which the firm's clients operate, especially the firm's industry concentrations
- The results of the prior peer review
- The results of any regulatory or governmental oversight or inspection procedures
- The results of the team captain's assessment of the firm's design of and compliance with quality controls in accordance with SQCS No. 8
- Risk level of the engagements performed (For example, does the firm perform audits of employee benefit plans, entities subject to the Single Audit Act, entities subject to SEC complex independence requirements, and others under *Government Auditing Standards*, HUD-regulated entities, and others with high-risk features or complex accounting or auditing applications?)
- Have there been any major changes in the firm's structure or personnel since the prior peer review?

Detection Risk

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

Review of CPE Records During a Peer Review

53-1

Question — Paragraph .53 discusses testing the functional areas of a firm. What are some factors to consider regarding continuing professional education (CPE) records?

Interpretation — In accordance with SQCS No. 8, a firm should establish policies and procedures designed to provide it with reasonable assurance that its personnel have the appropriate competence, capabilities, and commitment to ethical principles. Such policies and procedures should address, among other items, professional development (including training or CPE). The fundamental purpose of CPE is to maintain or increase professional competence. Team captains on System Reviews should carefully consider a firm's CPE policies and the firm's philosophy toward continuing education when assessing risk during planning. In addition, team captains should carefully test a firm's CPE records to the extent deemed necessary during their testing of the functional areas of a firm. They should ascertain that the appropriate amounts and types (accounting, auditing and quality control) of CPE are being taken by the appropriate firm personnel, including that personnel are in compliance with CPE requirements for boards of accountancy in states in which the firm's personnel are licensed. The team captain should also consider if the firm is taking appropriate action to correct situations where personnel are not in compli-

ance with CPE requirements. The lack of appropriateness or quality of a firm's compliance with CPE requirements can be the systemic cause of a matter, finding or deficiency and thus affect the firm's peer review results. A team captain's diligence in considering and testing CPE can impact the quality of the peer review and hence the program's goal of improving audit quality. A team captain's steps in considering and testing CPE during a peer review are subject to review and oversight by the administering entity.

Planning and Performing Compliance Tests of Requirements

54c-1

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

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

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

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

As stated previously, the team captain will be opining on design and compliance with the system of quality control in effect for the year ending the peer review year end date. If, for example, there were no

instances of accepting new clients in the peer review year, it is appropriate to test compliance in prior years assuming the design of the policies and procedures is the same.

54d-1

Question — Paragraph .54*d* discusses the peer reviewer's requirement in a System Review to review other evidential material as appropriate, including selected administrative or personnel files. Should the reviewer test the firm's compliance with requirements of voluntary membership organizations?

Interpretation — Voluntary membership requirements that are not directly imbedded into the firm's written system of quality control for its accounting and auditing practice are not tested as a part of the peer review. In addition, voluntary membership requirements, even those included in the firm's written system of quality control, that do not directly contribute to the firm's compliance with the requirements of the SQCSs are not tested, addressed, or reported on in the peer review process. Those membership requirements that are specifically imbedded into the firm's written system of quality control and directly contribute to the firm's compliance with the SQCSs are within the scope of peer review, but not because they are a membership requirement, but rather because they are an integral part of the firm's system of quality control for the firm to comply with the SQCSs. In this instance, any matters, findings, or deficiencies noted in these areas would only be addressed as they relate to the firm's system of quality control and they would not be described as related to the voluntary membership requirements.

Inclusion of Engagements and Aspects of Functional Areas in the Scope of the Peer Review

55-1

Question — Paragraph .55 of the standards notes that there is a presumption that all engagements and all aspects of functional areas otherwise subject to the peer review will be included in the scope of the review. Could a firm have a legitimate reason for an exclusion and what is the effect on the performance of the review?

Interpretation — In rare situations a reviewed firm may have legitimate reasons for excluding certain engagements or certain aspects of functional areas, for example when an Engagement or an employee's personnel records are subject to pending litigation. In those instances a reviewer should carefully consider the implication of such exclusions. Those considerations should include assessing the reasonableness of the reasons for the exclusions and assessing the effect on peer review risk assessments and scope, including whether alternate procedures can be performed. To reduce the potential for disagreement about such matters among the reviewed firm, the reviewer, and the administering entity, ordinarily, when the reviewed firm contemplates excluding engagement(s) or aspect(s) of functional area(s), it should notify the team captain in a timely manner and submit a written statement to the administering entity, ordinarily prior to the commencement of the review, indicating (*a*) it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process, (*b*) the reasons for the exclusion, and (*c*) it is requesting a waiver for the exclusion. The administering entity should satisfy itself concerning the reasonableness of the explanation before agreeing to the exclusion.

For peer reviews overseen by a panel pre-assigned by the administering entity for on-site oversight purposes, the reviewed firm should notify the team captain in advance that it is probable that engagement(s) or aspect(s) of functional area(s) will be excluded from the review, the general reasons for such exclusion, and a detailed description of the procedures used to identify and assess those situations. The panel as previously described should determine that those procedures are appropriate in light of the circumstances. They should consider the level of oversight to which the review may be subject and the level of involvement that members of the board have in that oversight. In addition, they should consider the practicality of selecting a replacement and the availability of other engagement(s) or aspect(s) of functional area(s) as appropriate replacements. Ordinarily, the greater the population to select from, the more there is an opportunity to find an appropriate replacement, and the less there is a risk that there is a scope limitation.

The administering entity (or panel as previously described) should approve the request to exclude engagement(s) or aspect(s) of functional area(s) as the situation arises only when it is satisfied that, based on the reasonableness of the procedures used to identify and assess the situations and the other factors described in the preceding, there will be no limitations on the scope of the review.

Regardless of the approach used to notify the administering entity of exclusions, the reasons for the exclusions and the risk assessment implications should be fully documented in the peer review working papers, and the peer review committee should consider those factors as part of its evaluation and acceptance process.

An administering entity 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, or when 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)* to which there would be no letter of response).

If the administering entity (or panel as previously described) 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 (see Interpretation No. 5h-1).

Office and Engagement Selection in System Reviews

56-1

Question — Paragraph .56 of the standards provides factors to consider when assessing peer review risk at the office level. What are some other examples of factors to consider?

Interpretation — Other examples of factors to consider when assessing peer review risk at the office level follow. This list is for illustrative purposes only, and does not include all possible inherent and control risk factors, nor is the peer reviewer required to consider every item on the list when assessing inherent and control risk:

- Offices with one or a few engagements comprising a significant portion of the office's accounting and auditing practice
- Offices with concentrations of high risk engagement
- Offices with a pattern of litigation or regulatory actions
- Offices identified in the preceding peer review or through monitoring procedures as operating at a level significantly below the firm's quality standards
- Offices with an unreasonably large number of accounting and auditing hours per engagement partner
- Offices with only one or a few engagements in a specialized industry
- Offices not subjected to monitoring procedures or not scheduled to be subject to monitoring procedures since the last peer review
- Offices where individual partners practice in many industries
- Offices in geographic areas that are experiencing economic hardships
- Offices with numerous clients in industries experiencing economic hardships

58-1

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

Interpretation — Professional guidance indicates that auditors should not date the audit report until they have obtained sufficient appropriate audit evidence to support the opinion. At that point audit documentation should have been reviewed, financial statements should have been prepared, and management should have asserted its responsibility for them. Document completion dates specify a date certain by which assembly of the audit file must be completed. During the period leading up to that date, changes can be made to the audit documentation to complete the documentation and assembly of audit evidence, perform routine file-assembling procedures, sign off on file completion checklists and add information received after the date of the auditor's report; for example, an original confirmation that was previously faxed. However, the sufficient appropriate audit evidence would have already been required to be in

place when the report was dated and thus would be in place when it was issued. Thus, there is no impact on the process of selecting engagements for review.

58-2

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

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

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

58-3

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

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

59-1

Question — Paragraph .59 of the standards requires that engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater

emphasis on those engagements in the practice with higher assessed levels of peer review risk, and the guidance provides examples of factors to consider when assessing peer review risk at the engagement level. What are some other considerations?

Interpretation — A reasonable cross section of a firm's accounting and auditing practice, not only includes consideration of the specific industries that are required to be selected, but other industries that have a significant public interest. Industries that have a significant public interest are those that benefit the general welfare of the public, such as those that have recent regulatory and legislative developments (for example broker-dealers). Public interest industries will vary across firms and reviewers should consider the composition of a firm's accounting and auditing practice when determining if their risk assessment should address a public interest industry. The reviewer also needs to carefully consider the industries that the firm has identified in the category of "other audits" when determining whether to select such an engagement(s). A selection consisting solely of public interest industries would not necessarily represent a reasonable cross section. Other factors to consider in selecting a reasonable cross section may include the number of partners, the number of practice offices, and materiality thresholds of accounting and auditing hours.

The reviewer should explain and document in the *Summary Review Memorandum* key decisions that he or she made when he or she chose not to select any one or more of the following: a level of service, industries in which a significant public interest exists, and industries in which the firm performs a significant number of engagements. This does not give authority to the reviewer to avoid selecting an engagement(s) by simply documenting the reason(s) why he or she did not select certain engagement(s). Therefore the reviewer should document important considerations regarding the engagement selection process.

A reasonable cross section does not always require that at least one engagement from every level of service provided by the firm be selected for review; however, it often may be appropriate in the circumstances. There is no percentage of coverage that necessarily ensures a reasonable cross section. Therefore, there is a relationship between a risk-based approach and a reasonable cross section when selecting engagements, and in that regard each peer review needs to be considered on a case-by-case basis.

The following are examples of risk considerations when addressing obtaining a reasonable cross section of the engagements, including engagements that must be selected. It is expected that the various types of engagements within an industry are specifically addressed in the risk assessment. Similar considerations should be made for industries that have a significant public interest, such as engagements subject to SEC independence rules.

a. *Governmental — Government Auditing Standards* — Inclusion of a must select engagement should not supersede the reviewer's consideration of engagements and industries that have a significant public interest such as state and local governments, school districts and HUD engagements. For example, if for-profit HUD multifamily housing project audit engagements constitute a significant percentage of a firm's practice, one would expect the reviewer to select at least one such engagement for review. However, if the firm also performed an audit of an engagement subject to the Single Audit Act, such as a local government or not-for-profit organization, one such engagement must also be selected to perform an evaluation of the firm's single audit com-

pliance. Peer reviewers should also consider audit firm experience such as how many governmental audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on GAS engagements. Further consideration should be given to communications from regulatory agencies.

b. *Employee benefit plans* — For employee benefit plans under ERISA, the peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in limited versus full scope audits and in different types of benefit plans such as defined benefit, defined contribution, and voluntary health and welfare plans. If a firm has more than one of the preceding types of plans, the reviewer must consider the unique risks associated with that type of plan and document how these risks were addressed in the risk assessment. Peer reviewers should also consider audit firm experience such as how many ERISA audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on ERISA engagements. Further consideration should be given to communications from regulatory agencies.

c. *Depository Institutions* — For FDICIA engagements, peer reviewers should take into consideration the amount of total assets held by the federally insured depository institution (less than $500 million, more than $500 million, more than $1 billion). Peer reviewers should also consider audit firm experience such as how many FDICIA audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on FDICIA engagements. Further consideration should be given to the risks of the audited company such as the level of reporting the institution complies with (the holding company level or the bank subsidiary level and the regulatory issues associated with each), the balance of the lending portfolio (the industries and concentration percentage of the portfolio), any regulatory correspondence and examination results, capital ratios, financial institution management experience, economic environment and geographic location of the institution, number of branches, and experience and longevity of the board of directors and audit committee.

d. *Broker-dealers* — The peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in carrying and non-carrying broker-dealers. Consideration of carrying broker-dealers should include carrying, clearing, and custodial broker-dealers. Consideration of non-carrying broker-dealers should include introducing broker-dealers. The peer reviewer should also consider other types of broker-dealers that fit the description of carrying and non-carrying broker-dealers in Interpretation No. 63-2. If a firm has more than one of the preceding types of broker-dealer audits, the reviewer must consider the unique risks associated with that type of audit and document how these risks were addressed in the risk assessment. For all broker-dealer engagements, the peer reviewer should consider audit firm experience such as how many broker-dealer audits the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, and reasonableness of hours spent on broker-dealer engagements. Further consideration should be given to communications from regulatory agencies.

e. *Service Organizations* — The peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in different types of examinations of service organizations (SOC 1 and SOC 2 engagements). If a firm performs more than one of the preceding types of engagements, the reviewer must consider the unique risks associated with that type of engagement and document how these risks were addressed in the risk assessment. Peer reviewers should also consider audit firm experience such as how many SOC 1 and 2 engagements the firm performs, the length of experience in performing these engagements, the number of team members with experience, whether the team members have undergone CPE or specialized training, whether the firm utilizes a group that specializes in internal controls for completing its SOC 1 and 2 engagements, and reasonableness of hours spent on SOC 1 and 2 engagements. Additional considerations should be given to whether the firm performs SOC 1 and 2 engagements with significant sub-service organizations identified in the auditor's opinion (inclusive method is higher risk than carve out). Further consideration should be given to communications from regulatory agencies. Although SOC 1 and SOC 2 engagements are different, noncompliance for one type may be indicative of noncompliance in the other. SOC 3® engagements are not must select engagements but when considering the pervasiveness of a systemic cause and the portion of the firm's practice that may be impacted by matters identified with SOC 1 and 2 engagements, the reviewer should also consider SOC 3 engagements.

59-2

Question — Paragraph .59 of the standards provides factors to consider when assessing peer review risk at the engagement level. What are some other examples of factors to consider?

Interpretation — Other examples of factors to consider when assessing peer review risk at the engagement level follow. This list is for illustrative purposes only, and does not include all possible inherent and control risk factors, nor is the peer reviewer required to consider every item on the list when assessing inherent and control risk:

- Engagement size, in terms of the hours required to plan and perform it
- Engagements involving experienced personnel hired from other firms, and partners who also have office, regional or firm-wide management, administrative, or functional responsibilities
- Engagements where work on segments has been referred to other firms, foreign offices, domestic or foreign affiliates, or correspondents
- Engagements where one or more affiliated entities (for example, parent companies and subsidiaries or brother and sister companies) constitute a large portion of the firm's overall clientele
- Engagements identified in the firm's quality control System or guidance material as having a high degree of risk
- Engagements where departures from professional standards and failure to comply with the firm's quality control policies and procedures were noted in the preceding year's monitoring procedures

- Engagements in industries where the firm has experienced high instances of litigation, proceedings, or investigations
- Engagements affected by recently implemented revisions of the firm's quality control policies and procedures
- Engagements affected by newly effective professional standards
- Clients in industries in poor financial condition
- Clients in industries with complex or sophisticated transactions
- Engagements from merged-in practices
- Engagements subject to *Government Auditing Standards*
- Engagements subject to ERISA
- Engagements subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA)
- Audits of securities and commodities broker-dealers
- Examinations of controls relevant to both a service organization and its user entities
- Engagements subject to SEC independence rules

59-3

Question — What factors should be considered if a firm has an office in a foreign country or other territory?

Interpretation — The standards are intended for firms enrolled in the program who are engaged in the practice of public accounting in the United States or its territories. Some firms also have offices in foreign countries or their territories ("foreign jurisdictions"), including the Cayman Islands and Bermuda. One important factor to consider in determining whether reports issued for clients in those foreign jurisdictions are to be included in the scope of the peer review is the letterhead of the report issued. For instance, ordinarily if a U.S. firm issues a report on letterhead from its office in that foreign jurisdiction, the engagement would not be included in the scope of the peer review. Another factor is whether the reports issued for clients in the foreign jurisdictions are addressed by guidance from the state board of accountancy(s) that issues the firm's license(s). Team or review captains should consult with AICPA technical staff if there is any question of whether an engagement is subject to peer review under these circumstances. In addition, reviewed firms need to consider whether there are peer review or practice monitoring requirements issued by the licensing authority of the foreign jurisdiction which are applicable to the reviewed firm.

61-1

Question — Paragraph .61 of the standards requires that at least one engagement from the initial selection to be reviewed should be provided to the firm once the review commences and not provided to the firm in advance (the surprise engagement). What steps should be followed when making the selection of the surprise engagement?

Interpretation — The following steps should be followed:

1. Complete the risk assessment as described in paragraphs .46–.52 of the standards.

2. Plan the compliance tests as described in paragraphs .53–.63 of the standards and determine which engagements should be selected for the review, independent of any surprise selections.

3. Based on those engagements selected for review, determine which engagement should be the surprise engagement. If the risk assessment warrants, more than one surprise engagement may be selected.

Although the standards indicate that the engagement should be the firm's highest level of service (which ordinarily means an audit), in situations where the audit cannot be the surprise selection (for instance, if there is only one audit required to be selected or the only audit is a must select engagement), an engagement from the next highest level of service should be selected. It is not always possible for the reviewer to know whether a reviewed firm expects a certain engagement to be selected. Reviewers are asked to use their professional judgment in these situations. The selection should be based on the risk assessment performed in step 1 and the engagement should be from the list of engagements determined in step 2. The team captain should not increase the original scope of the selection whether another audit or another level of service is selected as the surprise engagement.

See section 3100 for several examples for selecting surprise engagements.

61-2

Question — How does the requirement to select a surprise engagement apply for a System Review performed at a location other than the reviewed firm's offices (Interpretation No. 8-1)?

Interpretation — For System Reviews approved by the administering entity to be performed at a location other than a reviewed firm's offices, engagements selected to be reviewed are submitted to the reviewer by the firm. As a result, the requirement to select a surprise engagement on a System Review performed at a location other than the reviewed firm's offices is not applicable.

62-1

Question — Paragraph .62 of the standards requires that the team captain consult with the administering entity about the selection of engagements for review if the team captain finds that meeting all of the criteria in the related guidance results in the selection of an inappropriate scope of the firm's accounting and auditing practice. What items should the team captain consider to determine if the selection is appropriate?

Interpretation — The team captain should carefully consider whether

a. significant risk areas have appropriate coverage (see paragraph .65 of the standards).

b. appropriate weight has been given to reviewing work performed by all or most supervisory personnel.

c. adequate consideration has been given to engagement selection based on peer review risk on a firm-wide basis. For example, if two offices are selected for review and each has a large client in the same specialized industry, peer review risk should be considered in determining whether more than one of these engagements should be selected for review.

If an engagement(s) within the team captain's selection is not available for review, a comparable engagement within the peer review year-end is also not available, nor is there a prior year's engagement that may be reviewed; the team captain should consult with the administering entity to determine the effects on the timing or year-end of the peer review, if any, and whether a report with a peer review rating with a scope limitation should be issued.

63-1

Question — Paragraph .63 of the standards requires that specific types or number of engagements must be selected in a System Review as well as specific audit areas. In a System Review, what specific types and number of engagements, if any, should be included in the sample of engagements selected for review or assessed at a higher level of peer review risk?

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

a. *Governmental — Government Auditing Standards*, issued by the U.S. Government Accountability Office, requires auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards. If a firm performs an engagement of an entity subject to GAS and the peer review is intended to meet the requirements of those standards, at least one engagement conducted pursuant to those standards should be selected for review. Additionally, if the engagement selected is of an entity subject to GAS but not subject to the Single Audit Act and the firm performs engagements of entities subject to the Single Audit Act, at least one such engagement should also be selected for review. The review of this additional engagement must evaluate the compliance audit requirements and may exclude those audit procedures strictly related to the audit of the financial statements.

b. *Employee Benefit Plans* — Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to ERISA. Therefore, if a firm performs the audit of one or more entities subject to ERISA, at least one such audit engagement conducted pursuant to ERISA should be selected for review. Refer to Interpretation No. 59-1.

c. *Depository Institutions* — The 1993 FDIC guidelines implementing the FDICIA require auditors of federally insured depository institutions having total assets of $500 million or greater at the

beginning of its fiscal year to have a peer review that includes the review of at least one audit of an insured depository institution subject to the FDICIA. If a firm performs an audit of a federally insured depository institution subject to the FDICIA and the peer review is intended to meet the requirements of the FDICIA, at least one engagement conducted pursuant to the FDICIA should be selected for review. The review of that engagement should also include a review of the reports on internal control if applicable because those reports are required to be issued under the FDICIA when total assets exceed $1 billion.

d. *Broker-Dealers* — Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits of broker-dealers. The type of broker-dealer with the highest risk is a carrying broker-dealer. Therefore, if a firm performs the audit of one or more carrying broker-dealers, at least one such audit engagement (and the related attestation engagement) should be selected for review. It is also expected that if a firm's audits of broker-dealers include only non-carrying broker-dealers, the team captain should select at least one such engagement (including the related attestation engagement) for review.

e. *Service Organizations* — Due to the reliance on examinations of service organization (SOC 1 and SOC 2) reports, there is a significant public interest in these engagements relevant to user entities. Therefore, if a firm performs an examination of one or more service organizations and issues a SOC 1 or SOC 2 report, at least one such engagement should be selected for review. If a firm performs both SOC 1 and SOC 2 engagements and a proper risk assessment determined that only one SOC engagement should be selected, ordinarily a SOC 1 engagement should be selected over a SOC 2 engagement due to the reliance upon the report by other auditors. Peer reviewers may deem it necessary to select both SOC 1 and SOC 2 engagements. However, there may also be situations in which it would be appropriate to pick a SOC 2 engagement and not select a SOC 1 engagement. An example may be that the SOC 2 engagements have not been previously selected and the SOC 1 engagements have been selected; the SOC 2 practice is growing and the SOC 1 practice is stable; and so on.

In complying with the requirements in the previous list, peer reviewers should also ensure that the engagements selected include a reasonable cross section of the firm's accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain this risk weighted cross section. Refer to Interpretation No. 59-1.

The team captain's consideration of this coverage should be discussed in his or her risk assessment documentation. This discussion should include any factors considered when the reviewed firm has a significant number of engagements in one of these high risk areas and it is not otherwise evident why only one engagement from the industry has been included in the scope of the review.

63-2

Question — For purposes of the AICPA Peer Review Program, what is the difference between a carrying and non-carrying broker-dealer?

Interpretation — Carrying broker-dealers include all broker-dealers that clear customer transactions, carry customer accounts or hold custody of customer cash or securities. Examples of carrying broker-dealers include (*a*) clearing broker-dealers who receive and execute customer instructions, prepare trade confirmations, settle the money related to customer trades and arrange for the book entry (or physical movement) of the securities and (*b*) carrying broker-dealers that hold customer accounts or clear customer trades for introducing broker-dealers. Non-carrying broker-dealers are those broker-dealers that do not clear customer transactions, carry customer accounts, or hold custody of customer cash or securities. Examples of non-carrying broker-dealers are (*a*) introducing broker-dealers that introduce transactions and accounts of customers or other broker-dealers to another registered broker-dealer that carries such accounts on a fully disclosed basis and does not receive or hold customer or other broker-dealers securities and (*b*) a broker-dealer whose business does not involve customer accounts, such as proprietary trading firms, investment banking firms, and firms that sell interest in mutual funds or insurance products.

63-3

Question — Paragraph .63 of the standards requires that specific types or number of engagements must be selected in a System Review as well as specific audit areas. What is the difference between a must select and a must cover engagement?

Interpretation — Must select engagements must be included in the sample of engagements selected for review. A must cover industry does not have to be selected for review, however, either the team captain or a team member must have at least recent experience in the industry to aid in the risk assessment process and determination of whether an engagement from the must cover industry should be selected for review.

The Board periodically assesses engagements to determine which may have the most significant public interest of the moment. These engagements are deemed to be must cover engagements. Currently, the list includes state and local governments. These engagements, in addition to the must select engagements (as described in Interpretation No. 63-1), are must cover engagements for all firms. A firm may have additional must cover industries based on the concentration of its practice that subjects it to a System Review (as described in paragraph .07 of the standards). Industries in which a firm's practice that subjects it to a System Review has a 10% or more concentration are also considered must cover engagements.

A team member must have recent experience in and knowledge about rules and regulations appropriate to the level of service applicable to the industries of the engagements the individual will be reviewing, regardless of whether the engagement is a must select or must cover.

Concluding on the Review of an Engagement

66-1

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

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

a. The financial statements were not in conformity with GAAP in all material respects or, if applicable, with a special purpose framework and the auditor or accountant's report was not appropriately modified.

b. The firm did not perform or report on the engagement in all material respects in accordance with GAAS and other applicable standards; for example, *Government Auditing Standards*.

c. The firm did not perform or report on the engagement in all material respects in accordance with SSARS.

d. The firm did not perform or report on the engagement in all material respects in accordance with SSAEs or any other applicable standards not encompassed in the preceding.

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

67-1

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

- *Interpretation* — If the reviewer concludes that an engagement is not performed or reported on in conformity with applicable professional standards in all material respects, the team captain or review captain should promptly inform an appropriate member of the reviewed firm on an MFC form. The team captain or review captain should remind the reviewed firm of its responsibilities under professional standards to take appropriate actions as addressed in the following professional standards, as applicable:AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* [fn 7]

- SSARS No. 19, *Framework for Performing and Reporting on Compilation and Review Engagements*, or SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AR-C sec. 60, 70, 80, and 90) [fn 8] as applicable

[fn 7] All AU-C sections can be found in AICPA *Professional Standards*.

[fn 8] All AR-C sections can be found in AICPA *Professional Standards*.

- AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date*
- The "Breach of Independence" interpretation (ET sec. 1.298.010)
- The reviewed firm should investigate the issue questioned by the review team and determine what timely action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports. The reviewed firm should then advise the team captain or review captain of the results of its investigation, including parties consulted, and document the actions planned or taken or its reasons for concluding that no action is required as follows:
    - In the firm's response to the MFC form
    - In the firm's response to the FFC form, if applicable
    - In the firm's letter of response to deficiencies and significant deficiencies identified in the report, if applicable

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

67-2

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

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

If the firm has taken action, ordinarily the review team should review documentation of such actions (for example, omitted procedures performed, reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the action is appropriate. If the

firm has not taken action, the review team should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).

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

Refer to paragraphs .68 and .84 of the standards for additional guidance on assessing when to expand scope and when matters may be isolated. Refer to Interpretation No. 100-1 for additional guidance for the evaluation of a firm's response.

Aggregating and Evaluating Matters

79-1

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

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

- Examples may include but are not limited to the failure to establish or comply with policies and procedures designed to provide the firm with reasonable assurance thatthe internal culture is based on recognition that quality is essential in performing engagements. This may be identified by firm leadership failure to have a quality control document, failure to appropriately respond to findings in a regulatory investigation, failure to have a timely peer review, and so on.

- the firm and its personnel comply with relevant ethical requirements. This may be identified by failure to obtain independence confirmations from all personnel, failure to inform personnel on a timely basis of changes to the list of clients and related entities, failure to address potential breaches of independence, and so on.

- the firm will undertake or continue relationships and engagements only when the firm is competent to perform the engagements. This may be identified by failure to have policies and procedures in place to require evaluation of the nature of the services to be provided, evaluation of the firm's resources to provide the services, evaluation of the need to engage a third party to assist in new industries, and so on.

- the firm has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards. This may be identified by failure to have policies and procedures requiring personnel to maintain a CPA license, comply with industry specific CPE requirements, ensure appropriate industry experience on engagement teams, and so on.

- the firm's compliance with all areas of the firm's system of quality control is effectively monitored. This may be identified by lack of monitoring of appropriate CPE for all firm personnel, lack of monitoring of functional areas in the firm's peer review year, failing to appropriately respond to issues identified during engagement inspections, and so on.

Determining Whether There is a Systemic Cause

83-1

Question — Paragraph .83 of the standards notes that when a review team is faced with an indication that a matter(s) could be a finding, the review team's first task in such circumstances, in collaboration with the firm, is to determine the systemic cause. Why?

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

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

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

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

To properly assess the systemic cause, reviewers should not accept "oversight" or "isolated" as the firm's response without further investigation. Accordingly, the firm should provide sufficient detail for the reviewer to understand what caused the matter. For example, the failure to follow the firm's practice aid for a particular area may have been an isolated occurrence; however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter. Further guidance is provided in Interpretation No. 84-1 to assist reviewers in determining if the matter is isolated.

83-2

Question — For System Reviews and Engagement Reviews, what is considered a repeat finding on an FFC form?

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

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

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

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

83-3

Question — Paragraph .83 of the standards notes the importance of determining the systemic cause of the identified findings. How do the results of regulatory or governmental oversight or inspection factor into this determination?

Interpretation — If similar issues were raised in both the regulatory or governmental oversight(s) and in the peer review, the review team should further understand the systemic causes identified by the reviewed firm and consider whether there may be a systemic issue related to the design of the system of quality control or compliance with it. See Interpretation Nos. 40-1 and 40-2 for additional considerations.

Isolated Matters in a System Review

84-1

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

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

Reviewers should follow the guidance in paragraph .68, "Expansion of Scope," and paragraphs .84–.85, "Determining the Systemic Cause," of the standards. The reviewer needs to evaluate the pervasiveness of the issue, including expanding scope if necessary. In some instances, the team captain should expand scope to other engagements or aspects of functional areas, and determine that such matters did not occur elsewhere, thus evidencing that the noncompliance with the firm's system of quality control was truly isolated. In these situations, team captains should focus on the systemic cause of the matter when analyzing if it is isolated and may consider a key area approach when expanding scope to other engagements or aspects of functional areas to determine if the matter is isolated. The reviewer's ability to conclude a matter is isolated may be dependent on his or her ability to expand scope to engagements or aspects of functional areas that are classified by common characteristics such as, but not limited to, the industry, level of service, the practitioners in charge, or engagements that must be selected in a peer review.

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

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

Communication Requirements for Closing Meeting and Exit Conference

91-1

Question — Paragraphs .91–.92 and .115 of the standards instruct peer reviewers on communicating conclusions at the closing meeting and exit conference. What other guidelines should be followed?

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

- Furthermore, for System Reviews, the closing meeting and exit conference are not the appropriate place or time to surprise the firm with the intention of issuing a *pass with deficiency* or *fail* report or to discuss any unresolved accounting and auditing issues. It is expected that the team captain will have an open means of communication with various levels of personnel leading up to the closing meeting, having at a minimum and as applicablepromptly informed them when an engagement is not performed or reported on in conformity with applicable professional standards;

- discussed MFC and FFC forms including the systemic causes and related remedial actions of the firm for any matters, findings, deficiencies, and significant deficiencies in advance; and

- followed up on open questions and issues.

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

91-2

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

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

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

94-1

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

Interpretation — The team captain or review captain should notify the administering entity that the review has been performed. Within 30 days of the exit conference date or by the firm's peer review due date, whichever date is earlier, the team captain should submit the following documentation to the administering entity.

For System and Engagement Reviews:

- Report and letter of response, if applicable
- Summary Review Memorandum, or Review Captain Summary, as applicable
- Engagement Summary Form (For Engagement Reviews)
- FFC forms, as applicable
- MFC forms, submitted electronically or hard copy, as applicable
- DMFC form, submitted electronically or hard copy, as applicable
- Firm's representation letter
- PRPM Section 22100 — Part A — UG, *Supplemental Checklist for Review of Single Audit Engagements*, and engagement profile(s) for single audit engagements reviewed (if applicable) (for System Reviews)
- Appendix A, *Explanation of No Answers*, for PRPM section 4400, *Supplemental Guidelines for Review of Quality Control Policies and Procedures for Engagements Performed in Accordance with Government Auditing Standards (Yellow Book) December 2011 Revision*, as applicable
- Appendix A, *Explanation of No Answers*, for PRPM sections 4500 or 4600, *Guidelines for Review of Quality Control Policies and Procedures*, and 4550 or 4650, *Guidelines for Testing Compliance with Quality Control Policies and Procedures*, as applicable

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

- All of the documents required to be submitted for System Reviews and Engagement Reviews

- Engagement questionnaires or checklists
- Quality control documents and related practice aids
- Staff and focus group interview forms
- Planning documents
- Any other relevant documents

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

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

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

96n-1

Question — Paragraphs .96*n* and .122*n* of the standards instruct a team captain in a System Review (or review captain on an Engagement Review) to identify, for any deficiencies or significant deficiencies included in the report with a peer review rating of *pass with deficiencies* or *fail*, any that were also made in the report issued on the firm's previous peer review. What further guidance is available in regards to this requirement?

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

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

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

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

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

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

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

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

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

96p-1

Question — Paragraphs .96*p* and .122*n* of the standards instruct the peer reviewer to include, for reports with a peer review rating of *pass with deficiency(ies)* or *fail*, descriptions of the deficiencies or significant deficiencies. What is the treatment of FFCs, if any, when these reports are issued, and how are deficiencies treated for reports with a peer review rating of fail?

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

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

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

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

Firm Responses in a System or Engagement Review

97-1

Question — Paragraphs .97 and .123 of the standards discuss the team captain or review captain's responsibility to review, evaluate, and comment on the reviewed firm's letter of response prior to its submission to the administering entity. What should be considered during that review?

Interpretation — The purpose of the letter of response is for a firm to stipulate, in writing, the specific action(s) that will be taken to correct deficiencies noted by the reviewer and, on a System Review, to enhance the current system of quality control. The description of the action(s) the firm has taken or will take should ensure prevention of recurrence of the deficiency or significant deficiency discussed in the report. The action(s) should be feasible, genuine, and comprehensive. The letter of response should not be vague or repetitive of the deficiency or significant deficiency in the report, because then it is difficult to determine if the planned action will be appropriately implemented to ensure prevention; or if the action is inappropriate for correcting the deficiency or significant deficiency. The letter of response should not be used as a place to indicate justification for the firm's actions that related to the deficiency or significant deficiency.

Firm Responses and Related Team or Review Captain Considerations

99-1

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

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

99-2

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

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

100-1

Question — Paragraphs .100 and .127 of the standards discuss the team captain or review captain's responsibility to review and evaluate the reviewed firm's responses on the FFC form and in the letter of response prior to submission to the administering entity with the peer review working papers. What should be considered during that review?

Interpretation — The purpose of the firm's response on the FFC form and in the letter of response is for a firm to stipulate, in writing, the specific action(s) that will be taken to correct findings and deficiencies noted by the reviewer and, on a System Review, to enhance the current system of quality control. In a System Review, the description of the action(s) the firm has taken or will take should discuss remediation of findings and deficiencies in the system of quality control and nonconforming engagements, if applicable, to ensure prevention of recurrence of the finding, deficiency or significant deficiency. For System and Engagement Reviews, the action(s) should be feasible, genuine, and comprehensive, addressing each of the requirements in paragraphs .99 and .125. The FFC form and letter of response should not be used as a place to indicate justification for the firm's actions that related to the deficiency or significant deficiency. If the firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.

In a System Review, a firm's failure to appropriately remediate findings, deficiencies, and nonconforming engagements is a strong indicator of a tone at the top weakness and the team captain should consider whether a related deficiency is appropriate. Reviewers are reminded that firms are only required to re-

mediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are deemed appropriate by the team captain, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

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

Election to Have a System Review

103-1

Question — Paragraph .103 of the standards notes that firms eligible to have an Engagement Review may elect to have a System Review. What tailoring is required to the peer review report under these circumstances?

Interpretation — Under these circumstances, any references in the peer review report to "the accounting and auditing practice" should be tailored to refer only to "the accounting practice." In addition, the following sentence should be added: "Firm XYZ & Co. has represented to us that the firm did not perform engagements that would require a system review."

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) responsible for the issuance of reports or performance of engagements.

- An engagement with disclosures (performed under SSARSs or SSAEs) should be selected.

- An engagement that omits substantially all disclosures (performed under SSARSs) should be selected.

104-2

Question — What should the peer reviewer be reviewing on a preparation engagement in 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 SSARSs. If the firm issues a disclaimer report, the reviewer would also assess whether it complied with SSARSs. 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 SSARSs), then one of each type of engagement should be selected as part of the peer review because 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

SSARSs), then one of each type of engagement should be selected as part of the peer review because 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 SSARSs), 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 five-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 A, B, C and D which fulfills the requirement to select an engagement in each level of service outlined in paragraph .104*a* of the standards. However, because 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. Because 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.

104-5

Question — What if the accountant is engaged to perform an engagement in accordance with SSARSs on financial information other than historical financial statements (for example, the preparation or compilation of prospective financial information or the compilation of pro forma financial information)?

Interpretation — References to financial statements for engagements performed in accordance with SSARS are to be taken as a reference to such other financial information. In accordance with SSARS, reviews of subject matter other than historical financial information are to be performed in accordance with SSAE.

Impact of SQCS No. 8 on Engagement Reviews

109-1

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

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

However, the objective of an Engagement Review is to evaluate whether engagements submitted for review are *performed and reported on* in conformity with applicable professional standards in all material respects. An Engagement Review consists of reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations the applicable documentation required by professional standards. An Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality control (which is what the documentation requirements are related to).

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

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

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

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

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

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

Qualifying for Service as a Peer Review Committee Member, Report Acceptance Body Member, or Technical Reviewer

132-1

Question — Paragraphs .132 and .136 of the standards note that minimum requirements must be met to be a peer review committee member, an RAB member, or a technical reviewer. What are those requirements?

Interpretation —

Peer Review Committee Member

A majority of the peer review committee members and the chairperson charged with the overall responsibility for administering the program at the administering entity should possess the qualifications required of a team captain in a System Review. All committee members must be AICPA members in good standing, whether conducting committee member duties for firms with or without AICPA members. A committee member who is suspended or restricted from scheduling or performing peer reviews no longer meets the qualifications until such suspension or restriction is removed. Reinstatement as a committee member would be at the discretion of the administering entity or committee.

Report Acceptance Body Member

Each member of an administering entity's RAB charged with the responsibility for acceptance of peer reviews must

a. be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active in the accounting or auditing function, an RAB member should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.

b. be associated with a firm (or all firms if associated with more than one firm) that has received a report with a peer review rating of *pass* on its most recently accepted System or Engagement Review that was accepted timely, ordinarily within the last 3 years and 6 months (see Interpretation No. 31b-1).

c. demonstrate proficiency in the standards, interpretations, and guidance of the program (see Interpretation No. 33-1).

d. be an AICPA member in good standing, whether conducting RAB member duties for firms with or without AICPA members.

A majority of the RAB members and the chairperson charged with the responsibility for acceptance of System Reviews should possess the qualifications required of a System Review team captain.

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

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

b. Associated with a firm (or all firms, if associated with more than one firm) that has received a report with a peer review rating of *pass* on its most recently accepted System Review that was accepted timely, ordinarily within the last three years and six months.

c. Not associated with an engagement that was deemed not performed in accordance with professional standards on the consultant's firm's most recently accepted System Review.

d. Be an AICPA member in good standing, whether conducting consultant duties for firms with or without AICPA members.

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

Technical Reviewers

Each technical reviewer charged with the responsibility for performing technical reviews should

a. demonstrate proficiency in the standards, interpretations, and guidance of the program applicable to the type of peer reviews being evaluated and that meet the requirements of the team captain or review captain training requirements established by the board (see Interpretation No. 33-1).

b. participate in at least one peer review each year, which may include participation in an on-site oversight of a System Review.

c. be an AICPA member in good standing, whether conducting technical reviewer duties for firms with or without AICPA members.

d. have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Technical reviewers are to obtain a minimum amount of CPE to maintain the appropriate level of accounting and auditing knowledge.

If a technical reviewer does not have such knowledge and experience, the technical reviewer may be called upon to justify why he or she should be permitted to perform technical reviews or oversights. The administering entity has the authority to decide whether a technical reviewer's knowledge and experience is sufficient and whether he or she has the capability to perform a particular technical review or oversight whether there are high-risk engagements involved or other factors.

The fundamental purpose of CPE is to maintain or increase, or both, professional competence. AICPA members are required to participate in 120 hours of CPE every 3 years. In order to maintain current knowledge of accounting, auditing, and quality control standards, technical reviewers should obtain at least 40% of the AICPA-required CPE in subjects relating to accounting, auditing, and quality control. Technical reviewers should obtain at least 8 hours in any 1 year and 48 hours every 3 years in subjects relating to accounting, auditing, and quality control. The terms *accounting*, *auditing*, and *quality control* should be interpreted as CPE that would maintain current knowledge of accounting, auditing, and quality control standards for engagements that fall within the scope of peer review as described in paragraphs .06–.07 of the standards.

Technical reviewers have the responsibility of documenting their compliance with the CPE requirement. They should maintain detailed records of CPE completed in the event they are requested to verify their compliance. The reporting period will be the same as that maintained for the AICPA.

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

Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities

133a-1

Question — Paragraph .133 of the standards indicates that the committee is responsible for ensuring that peer reviews are presented to a RAB in a timely manner, ordinarily within 120 days of the receipt of the working papers, peer review report, and letter of response, if applicable, from the team captain or review captain. What is meant by "ordinarily within 120 days?"

Interpretation — Timely acceptance of peer reviews is important because delays may affect both the firm and peer reviewers within the firm. However, there are circumstances in which delays are unavoidable, including the following:

a. Determination during technical review or presentation that an oversight should be performed

b. Submitted peer review documentation requires significant revisions

c. Additional inquiries of the firm or peer review team as a result of the technical review or presentation

d. Enhanced oversight procedures

e. Disagreements between reviewer, reviewed firm and RAB

Accepting Engagement Reviews by the Technical Reviewer

137-1

Question — The standards and interpretations indicate that the technical reviewer should be delegated the authority from the committee to accept Engagement Reviews in certain circumstances. What are those circumstances?

Interpretation — The technical reviewer should be delegated the authority from the committee to accept Engagement Reviews on the committee's behalf when the technical reviewer determines that any MFC forms prepared only relate to compilations or preparations under SSARSs, that no MFC forms should have been prepared except as related to compilations or preparations under SSARSs, and there are no other issues associated with the peer review warranting committee consideration or action that could potentially affect the results of the peer review.

The technical reviewer may identify reviewer performance feedback that should be considered and approved by the peer review committee prior to issuance. The technical reviewer should still be delegated the authority from the committee to accept Engagement Reviews on the committee's behalf when such feedback may be provided to the review captain unless the circumstances leading up to the feedback may have affected the results of the review. Accordingly, if the feedback being provided to the review captain involves issues which could potentially affect the results of the peer review, the technical reviewer should not accept the Engagement Review but present it to the committee for consideration.

Cooperating in a Peer Review — Implementation Plans and Correction Action Plans

143-1

Question — Paragraph .143 of the standards notes that an implementation plan in addition to the plan described by the firm in its responses on the FFC forms may be requested by the administering entity's peer review committee. Can this plan only be requested when a report with a rating of *pass* has been issued?

Interpretation — No, an implementation plan may be requested whether a report with a rating of *pass*, *pass with deficiency*, or *fail* is issued for any findings that were only raised to the level of an FFC and did not get elevated further. Thus, it is possible to have a required corrective action as a condition of acceptance of the peer review stemming from a report with a rating of *pass with deficiencies* or *fail* and a required implementation plan as a condition of cooperation (unrelated to the acceptance of the review) for the findings included in the FFCs.

Publicizing Peer Review Information

146-1

Question — Paragraph .146 of the standards discusses that neither the administering entity nor the AICPA shall make the results of the review available to the public, except as authorized or permitted by the firm under certain circumstances. What are examples of those circumstances?

Interpretation — A firm may be a voluntary member of one of the AICPA's audit quality centers or sections that has a membership requirement such that certain peer review documents be open to public inspection. Other firms may elect not to opt out of the program's process for voluntary disclosure of peer review results to state boards of accountancy where the firm's main office is located. Also, firms may voluntarily instruct their administering entity to make the peer review results available to certain other state boards of accountancy. In these cases, the firm permits the AICPA or administering entities to make their peer review results available to the public or to state boards of accountancy, respectively.

Peer review results include, as applicable, the

- peer review report;
- letter of response;
- acceptance letter;
- letter(s) signed by the reviewed firm indicating that the peer review documents have been accepted with the understanding that the reviewed firm agrees to take certain actions; and
- letter notifying the reviewed firm that certain required actions have been completed.

146-2

Question — Paragraph .146 of the standards discusses that neither the administering entity nor the AICPA shall make the results of the review available to the public except as authorized or permitted by the firm, which is addressed in Interpretation No. 146-1. When a firm with AICPA members is enrolled in the program, what information, in addition to results, may be provided to the AICPA Professional Ethics Division with the firm's explicit permission?

Interpretation — When there is evidence of an open ethics investigation and the respondent makes a knowingly, intelligent, voluntary waiver of the right to confidentiality in writing, in those circumstances,

AICPA Peer Review may provide information to the AICPA Professional Ethics Division. Information available for disclosure about the firm includes, but is not limited to, the following:

- Fieldwork commencement date
- Exit conference date
- Review acceptance date(s)
- Industries included on the firm's background form for prior or current peer reviews
- Level of service and industry of engagements included in prior or current peer reviews and those determined not to be in conformity with professional standards in all material respects
- Signed confirmations by a firm representative that the enrolled firm did not perform any services or issue reports which would require the firm to undergo a peer review
- Other similar information related to a prior or current peer review

146-3

Question — Paragraph .146 states that neither the administering entity nor the AICPA shall make the results of the review, or other information related to the acceptance or completion of the review, available to the public, except as authorized or permitted by the firm under certain circumstances. There are situations in which third parties, ordinarily licensing bodies, request information related to an ongoing peer review from an administering entity or the AICPA. What information may an administering entity or the AICPA provide when such requests are made?

Interpretation — When a firm has authorized the administering entity or the AICPA in writing to provide specific information (in addition to the information in paragraph .146) to third parties, the following (or similar) types of objective information about the review may be provided, if known:

- The date the review is or was scheduled to take place
- The name of the reviewing firm, team captain or review captain
- If the fieldwork on the peer review has commenced
- The date the exit conference was expected to or did occur
- A copy of any extension approval letters
- Whether the peer review working papers have been received by the administering entity
- Whether a must select engagement was included in the scope as required by the standards
- If a technical review is in process

- Whether the review has been presented to a RAB
- The date the review is expected to be presented to a RAB
- If an overdue letter has been issued and the reason for the letter has not been addressed. Third parties should be specific regarding the reason for the overdue letter that they are inquiring about such as overdue letters for failure to submit scheduling information.

Other written requests by the firm for the administering entity or AICPA to provide information or documents to a third party will be considered on a case by case basis by the administering entity or AICPA. However, neither the administering entity nor the AICPA will provide information that is subjective (due to different definitions or interpretations by third parties), even with firm authorization, such as the following:

- Stating solely that the review is "in process" or responding to an inquiry solely regarding what the "general status" of a peer review is
- The peer review report rating prior to the peer review's acceptance
- Whether there are indications that the firm, reviewing firm, team captain, or review captain are cooperating (or not cooperating) with the AICPA or administering entity
- An indication of the quality or completeness of peer review working papers received by the administering entity
- Reasons why peer review working papers, implementation plans, or corrective actions are late
- Whether a firm is close to submitting documents or completing implementation plans or corrective actions
- Reasons for, or the likely outcome if the firm is going through fair procedures to determine whether it is cooperating with the AICPA or administering entity

Paragraph .146 states that the firm should not publicize the results of the review or distribute copies of the peer review reports to its personnel, clients, or others until it has been advised that the report has been accepted (see interpretations) by the administering entity as meeting the requirements of the program. Where appropriate, the firm may discuss information in this interpretation with third parties at its discretion as long as paragraph .146 is complied with such as not disclosing the report rating until the review has been accepted.

Peer Reviewers' Performance and Cooperation

147-1

Question — A team captain, review captain, or reviewer (hereinafter, reviewer) has a responsibility to perform a review in a timely, professional manner. What happens when a reviewer fails to perform the review in a timely and professional manner?

Interpretation — When a reviewer fails to perform the review in a timely and professional manner, the reviewer may be deemed as not cooperating. Such situations might include, but are not limited to, the following:

- Failure to submit the report; FFC forms, if applicable; and required peer review documents to the administering entity within the required specified time
- Failure to respond or resolve questions from the technical reviewer or committee or RAB within the specified time including requests for additional procedures such as the expansion of scope on the review
- Failure to revise the report and FFC forms, if applicable, as requested by the committee or RAB
- Failure to respond to requests for documents (in addition to those originally required to be submitted) or requests to complete documents
- Failure to submit peer review documents and other information for oversight
- Failure to update or verify reviewer resume on a periodic basis

Situations such as those previously indicated, arise when the reviewer fails to cooperate with the administering entity. This development warrants communication to the reviewer and may result in his or her potential suspension from scheduling peer reviews.

148-1

Question — The board or committee may consider the need to impose corrective actions on the service of the reviewer. What are examples of corrective actions?

Interpretation — The board or committee may require the reviewer to comply with certain prescribed actions in order for the reviewer to continue performing peer reviews, such as (but not limited to) the following:

a. Oversight at the discretion of an administering entity until evidence of attendance at a future reviewer's training or accounting or auditing course(s) is received or performance improves.

b. Having committee oversight on the next review(s) performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as cost of travel).

c. Completing all reviews to the satisfaction of the committee including submitting all reports and appropriate documentation on all outstanding peer reviews before scheduling or performing another review, thus limiting the number of reviews that the reviewer may schedule or have open at one time.

d. Having pre-issuance review(s) of the report and peer review documentation on future peer reviews by an individual acceptable to the committee chair or designee who has experience in performing peer reviews.

e. Consultations with the administering entity to discuss the planning and performance of the next review.

f. Remove or revise résumé code until appropriate proof of experience and knowledge have been provided to the satisfaction of the committee.

Independent QCM Reviews

156-1

Question — A QCM provider may engage an independent third-party to perform procedures to evaluate the reliability of QCM. If the QCM provider requests a QCM review under AICPA Peer Review Standards (QCM review), then guidance at standards paragraphs .154–.205 are followed. If the provider instead requests an examination of QCM under the SSAEs, what guidance should be followed by the QCM provider and the independent third-party practitioner?

Interpretation — The QCM provider and independent third-party practitioner should follow guidance in SSAEs, specifically AT-C section 105, *Concepts Common to All Attestation Engagements*, and AT-C section 205, *Examination Engagements*, and related interpretations. [fn 9] The engagement should be designed using the same guidance as described at paragraphs .154–.156, .158–.159 and .170–.171. Such engagements are not QCM reviews under AICPA Peer Review Standards however the results of such engagements may be used by the review team to evaluate the reliability of the QCM used by the reviewed firm.

159-1

Question — Paragraph .159 of the standards refers to an affiliate or related entity as considerations in determining whether the QCM review is required. What does affiliate mean in this context, and how can an affiliate relationship lead to a required QCM review?

Interpretation — For QCM review purposes, a CPA firm has an affiliate relationship with another entity if the firm controls or has the power to control the other entity (or vice versa), if there is mutual ownership of the firm and the other entity, or if a third party controls or has the power to control both the firm and other entity. If a CPA firm is affiliated with an entity that is a provider of QCM, and the CPA firm performs peer reviews of other firms, the CPA firm is considered a provider firm. The CPA firm's inde-

[fn 9] All AT-C sections can be found in AICPA *Professional Standards*.

pendence will be impaired to perform peer reviews of firms that use the QCM sold by the affiliate, unless an independent review on the QCM is completed.

161-1

Question — The standards note that in the event of substantial changes in a provider's system of quality control to develop and maintain materials, or substantial changes in the materials themselves, the provider should consult with the National PRC to determine whether an accelerated QCM review is warranted. What are factors that the National PRC will consider in making this determination?

Interpretation — The National PRC will consider the following (at a minimum) in determining whether the provider should have an accelerated review:

- The reasons for and types of changes in the system, the resultant materials, or both
- The period of time since the last QCM review
- The rating of the last QCM report

If the provider is a provider firm that performs peer reviews of user firms, and the provider firm's system of quality control or the resultant materials underwent substantial changes, it may be necessary for the provider firm to have an accelerated QCM review in order to maintain independence with respect to user firms.

166-1

Question — Paragraph .166 of the standards indicates that the National PRC will consider other factors (in addition to the qualifications set forth in the paragraphs under "Organizing the System or Engagement Review Team" and "Qualifying for Service as a Peer Reviewer") in determining whether a peer reviewer is appropriately qualified to perform a QCM peer review. What are the other considerations?

Interpretation — The National PRC, as the administering entity for QCM reviews, establishes the qualifications necessary to perform a QCM review. In addition to the peer reviewer qualifications set forth in paragraphs .26–.35 of the standards, reviewers of QCM must have relevant and current industry experience in their own firm. The National PRC will also consider the history and nature of reviewer performance feedback, AICPA or administering entity-imposed peer reviewer restrictions, and other pertinent factors.

Subsequent to the approval of a QCM reviewer, situations may arise that causes the QCM reviewer to no longer meet the qualifications for serving as a QCM reviewer. Such situations include, but are not limited to, the following:

- Suspension or termination of AICPA membership
- Change in the status of the reviewer's CPA license from active status
- Eligibility criteria in paragraph .31 of the standards to serve as a peer reviewer are no longer met

- Communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of the peer reviewer's firm's accounting and auditing practice or notifications of limitations or restrictions on the peer reviewer's firm's right to practice

It is the responsibility of the provider to ensure that QCM review team members continue to meet the qualifications. Peer reviewers that have a conflict of interest with respect to the QCM under review will not be approved as a QCM review team member. Examples of individuals with conflicts of interest include someone who assisted in the materials' development or maintenance process, uses the materials as an integral part of his or her firm's system of quality control, or is an individual from a firm that is a member of the association whose materials are under review.

167-1

Question — Paragraph .167 of the standards requires the provider to identify the specific materials subject to the QCM review that will be opined upon in the report. What should be identified?

Interpretation — QCM are materials that are suitable for adoption by a firm as an integral part of that firm's system of quality control. Such materials provide guidance to assist firms in performing and reporting in conformity with professional standards and may include, but are not limited to, such items as engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams.

The provider determines the specific QCM included in scope. The scope is applicable to the substance and content of the specified QCM regardless of the different formats or media through which it could be available (print or electronic), unless specified by the provider. Further, QCM (for instance, a guide) will often have different elements, such as written guidance, practice aids, letter templates, sample completed aids or templates, and CPE modules. Some of these elements may be excluded from the scope of the review. Elements may be marketed by the provider separately as well. If not excluded from the scope of the review, then the separately marketed element QCM is also within the scope of the QCM review. However, if only the element (for example, practice aids) is opined on in the QCM review report, then the other elements of the QCM (written guidance, letter templates, and so on) are not included in the scope of the QCM review.

The provider and QCM reviewer should document during planning the specific QCM, elements, and formats or media (if not all) that will be included in the scope of the QCM review (for instance, within an engagement letter). Those specifics will later be incorporated into the QCM review report by the QCM reviewer. Carefully documenting the scope of a QCM review is an important step to ensure that the scope is clear to QCM report users.

175-1

Question — In a QCM review, the standards note that the QCM review team determines and documents the extent to which individual manuals, guides, checklists, practice aids, and so on are reviewed. What should the QCM reviewer consider when making this judgment?

Interpretation — Because the QCM review report opines on both the quality control system and the specific materials or aids listed in the report, all those materials or aids listed must be tested to some extent in order to support the opinion. However, the QCM reviewer can judgmentally determine the extent of testing or review procedures necessary on each aid. Considerations include areas within the materials or aids that address new guidance or changes in professional standards, areas that address procedures that rely heavily on judgment, or areas that contain methodology unique to the materials reviewed or unique interpretations of professional standards or other guidance. The assessment of the provider's system, including the review and editorial process, update and revision procedures, and so on should also factor into the QCM reviewer's judgment. The QCM reviewer's considerations for determining the extent of testing necessary for the materials or aids should be documented in the risk assessment. In addition, the QCM review working papers should document the actual testing or review procedures performed for each aid.

176-1

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

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

a. Instructions should include, but are not limited to, the aids' applicability for different firms or clients (for example, based on size, industry, or engagement complexity; levels of experience or knowledge; and so on); a reminder for the need to tailor the materials as appropriate; and a reminder to use professional judgment in the application of the materials based on the facts and circumstances of each engagement. The instructions should also address the documentation requirements in professional standards, and specifically discuss whether completion of the aids will assist users with fulfilling those requirements.

b. Guidance should be sufficient and technically accurate to assist users with conforming with the components that are integral to the professional standards that the materials purport to encompass, regardless of whether such standards are encompassed explicitly or implicitly. Explanatory guidance ranges from specific cross references to professional standards or directly quoting the standards, to explanations of the standards or integrating the verbiage of the standards into audit checklists or programs. QCM limited to audit program steps without explanatory guidance or specific reference to applicable professional standards would be considered insufficient and do not constitute reliable aids. In addition, materials that are industry specific should appropriately address the relevant professional standards and industry guidance from a completeness standpoint (for example, an aid that purports to assist users with performing risk assessment procedures for an ERISA engagement should include AU-C section 320, *Materiality in Planning and*

Performing an Audit, considerations tailored to the industry; the reviewer should question if AU-C section 320 considerations are omitted).

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

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

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

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

199-1

Question — Paragraph .199 of the standards discusses that providers that undertake to have a QCM review under these standards have a responsibility to cooperate with the QCM review team, the National PRC, and the board in all matters related to the QCM review. How does the guidance at Interpretation No. 5h-1, "Cooperating in a Peer Review," apply to QCM providers?

Interpretation — Providers (Paragraph .159) have a responsibility to cooperate with the QCM review team, the National PRC, and the board in all matters related to the QCM review in order for the review to be presented and accepted by the National PRC.

A provider is deemed by the National PRC as failing to cooperate once the review has commenced by actions or omissions including, but not limited to, the following:

- Not responding to inquiries.
- Withholding information significant to the QCM review (for instance, failing to discuss communications received by the provider or any of its authors and their firms, if applicable, 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, documentation of the system of quality control, the QCM under review, or all aspects of functional areas as applicable to QCM reviews.

- Not timely responding to MFCs or FFCs, or not timely providing a letter of response.

- Not providing a substantive response to MFCs, FFCs, deficiencies or significant deficiencies. The National PRC has the authority to determine if a provider's response is substantive. If the National PRC determines that a response is not substantive, and the provider does not revise its response or submits additional responses that are not substantive as determined by the National PRC, this would also be deemed as a provider's failure to cooperate.

- Limiting access to offices, personnel or other.

- Not facilitating the arrangement for the exit conference on a timely basis.

- Failing to cooperate during oversight.

- Failing to timely pay fees related to the administration of the program that have been authorized by the National PRC.

- Failing to receive a report with a rating of *pass* after (1) receiving at least two consecutive peer reviews prior to the third that had a report with a QCM review rating of *pass with deficiencies* or *fail* (previously referred to as modified or adverse reports) and (2) receiving notification via certified mail after the second consecutive report with a QCM review rating of *pass with deficiencies* or *fail* (previously referred to as modified or adverse reports) that a third consecutive failure to receive a report with a QCM review rating of *pass* (previously referred to as an unmodified report) may be considered a failure to cooperate with the National PRC.

- Providing erroneous information or omitting information discovered after acceptance of the provider's review that results in a significant change in the planning, performance, evaluation of results, or QCM review report. The National PRC has the authority to determine if this has occurred. The provider's failure to provide substantive responses during the process of resolving such an issue may also be deemed as a provider's failure to cooperate.

If the National PRC believes there is noncooperation, it will conduct a hearing to determine if the provider should be deemed by the National PRC as failing to cooperate. If the provider is deemed as failing to cooperate, the National PRC at its sole discretion may refuse to continue to administer the QCM review, even though the review has commenced.

The National PRC may also, at its sole discretion, without a hearing, refuse to administer future QCM reviews for a provider that has outstanding fees related to the administration of the program that have been authorized by the National PRC, after reasonable collection efforts have been made.

For any situations where the National PRC has the sole discretion to take or refuse to take an action, there is no subsequent appeal to any other body. The decision of the National PRC is final. However, if a provider resolves the issue(s) that led to its previous noncooperation to the National PRC's satisfaction, or remits full payment of outstanding fees related to a previous QCM review, the provider may request that the National PRC continue or commence administration of the QCM review(s). The National PRC will consider all available information including the provider's input, but also has the sole discretion to approve or deny the request depending on whether the National PRC believes the issue(s) were resolved to the satisfaction of the National PRC.

A provider may decide to withdraw from the review process after the review's commencement; however, a provider firm that decides to withdraw from the review process after the review's commencement is no longer independent to perform peer reviews of user firms. If a provider withdraws from the process after the review commences, the National PRC has the sole discretion to refuse to administer future QCM reviews for that provider.

Corrective actions (relating to the deficiencies or significant deficiencies noted in the QCM report) or implementation plans (relating to findings on the FFC form[s]) do not apply to QCM providers. QCM providers are required to provide responses that are comprehensive, genuine, feasible, and substantive to MFCs, FFCs, and deficiencies and significant deficiencies and the level of responsiveness affects the QCM's reliability (and marketability).

200-1

Question — Paragraph .200 of the standards states that if a provider refuses to cooperate during the course of a QCM review, the provider's firm's independence with respect to user firms may be impaired. Under what circumstances would the provider's independence with respect to user firms be impaired due to noncooperation?

Interpretation — If the required QCM review documents are not submitted by the due date due to the provider's noncooperation, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed (see Interpretation No. 25-2).

Once all the required QCM review documents have been submitted timely but before the report has been accepted, the National PRC may make whatever inquiries or initiate whatever actions of the provider or QCM review team it considers necessary under the circumstances. The National PRC will set a date by which responses to inquiries and evidence of completion of required actions must be received. If, as a result of noncooperation by the provider, inquiries or required actions remain unresolved as of the due date established by the National PRC, the provider's independence with respect to user firms will be impaired and the provider will not be permitted to perform or schedule future peer reviews of user firms until the provider's QCM review is completed.

Definition of Commencement

206-1

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

Interpretation — Interpretation No. 5g-1 notes that "A peer review commences when the review team begins field work, ordinarily at the reviewed firm's office in a System Review, or begins the review of engagements in an Engagement Review." The easiest measure is "when fieldwork begins." However, there are times when this may not apply. Therefore, Interpretation No. 32-1 further notes that "team members may review their engagements prior to the team captain or review captain beginning their field work. In these situations, a review is considered to have commenced when the team member begins the review of engagements (if this is prior to the team captain or review captain beginning their fieldwork)." In certain circumstances, fieldwork may commence before the review of engagements, such as during planning.

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

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

Firm Representations

208-8-1

Question — Paragraph .208(8) (appendix B) of the standards advises that the firm is required to make specific representations but is not prohibited from making additional representations beyond the required representations, in its representation letter to the team captain or review captain. What parameters should be used in tailoring the representation letter?

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

However, at a minimum the representation letter should comply with the spirit of the guidance, there is value to the reviewer of obtaining certain representations in writing. Thus, if during the review, some-

thing comes to the reviewer's attention whereby the reviewer believes the reviewed firm is providing contradicting or questionable information, the reviewer should investigate the matter further and may consider having the firm include the matter in the representation letter.

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

Firm and Individual Licenses

208-1a-1

Question — Paragraph .208(1) (appendix B) of the standards advises that firms include representations to the team captain or review captain concerning when management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review). What further guidance should be followed in regards to firm and individual licenses?

Interpretation — SQCS No. 8 requires firms to comply with "applicable legal and regulatory requirements", which includes firm and individual licensing requirements. Firms are required to comply with the rules and regulations of state boards of accountancy and other regulatory bodies in the states where they practice.

For System Reviews, the team captain should also obtain an understanding of the firm's system of quality control with respect to firm and individual licensing.

As a part of a System or Engagement review, reviewers should make inquiries of the firm to determine if the firm and its personnel are appropriately licensed as required by the state boards of accountancy in the state(s) in which the firm and its personnel practice. In addition, firms should submit written representations from the firm's management indicating compliance with such required rules and regulations. If the reviewed firm is aware of any situation whereby it is not in compliance with the rules and regulations of the state boards of accountancy or other regulatory bodies, it should tailor the representation letter to provide information on the areas of noncompliance.

To support the firm's responses and representations, a reviewer is required to verify the following:

- The *practice unit* license (firm license) in the state in which the practice unit is domiciled (main office is located).
- Individual (personnel) licenses in the state in which the individual primarily practices public accounting
    - For System Reviews, for a sample of appropriate personnel
    - For Engagement Reviews, for appropriate personnel on engagements selected

The reviewer should verify the license by requiring the firm to provide documentation from the licensing authority that the license is appropriate and active during the peer review year, and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork. Acceptable documentation includes an original or copy of the license, print-out from an online license verification system, correspondence from the licensing authority, or other reasonable alternative documentation. The reviewer's judgment may be needed to determine what alternative documentation is reasonable.

A reviewer is not required to verify an out-of-state practice unit license or an out-of-state individual license, on an individual engagement basis when that engagement is selected for review and was performed by the reviewed firm in another state requiring a firm or individual license. However, in a System Review, the reviewer's understanding of the firm's quality control procedures related to licensing, and the related risk of noncompliance, are considerations in determining whether any further testing is appropriate. In an Engagement Review, the reviewer should consider the firm's responses to inquiries in determining whether any further procedures are appropriate.

It is the reviewed firm's responsibility to have understood and complied with its licensing requirements. Therefore, it should be prepared to respond to the reviewer's inquiries and requests for documentation. This is also important for out-of-state firm and individual licenses when licensing requirements may be more difficult to identify and understand. When the reviewer deems it appropriate to test out-of-state licenses, the reviewer should expect the firm to provide documentation supporting its compliance with, or approach to, out-of-state licensing requirements. AICPA online CPA mobility provisions may be used to assist the reviewer in evaluating the firm's approach to firm and individual out-of-state licensing.

The reviewer should analyze the information obtained through inquiry and in the written representation letter to determine the impact on the peer review.

Communication of Report Acceptances

208-1a-2

Question — In furtherance to Interpretation No. 208-1a-1, what additional guidance should be followed in regards to firm and individual licenses?

Interpretation — Firms are required to comply with the rules and regulations of state boards of accountancy and other regulatory bodies in the state where they practice. Therefore, a state board of accountancy may be sent a list of firms with *accepted* peer reviews ("accepted" as defined in the Interpretations to the standards) in a given period which would allow the state board of accountancy to verify that firms undergoing peer review are licensed in that state.

Entities administering the AICPA Peer Review Program are not prohibited outside of the peer review process from gathering information from firms and communicating to the state boards of accountancy on licensure compliance matters.

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

208-8d-1

Question — Paragraph .208 (paragraph 8 of appendix B) of the standards discusses the reviewed firm's requirement to inform the reviewer of communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported on by the firm. What are the objectives of this requirement and what are some examples, although not an all-inclusive list, of such communications?

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

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

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

a. AICPA or State CPA Society Ethics Committees

b. AICPA Joint Trial Board

c. State boards of accountancy

d. SEC

e. PCAOB

f. State auditor

g. Department of Labor

h. Employee Benefits Security Administration

i. Government Accountability Office

j. Office of Management and Budget

k. Department of Housing and Urban Development

l. FDIC

m. Office of Thrift and Supervision

n. Federal or State Inspector General's Offices

o. Rural Utility Service

p. Other governmental agencies or other organizations that have the authority to regulate accountants (in connection with the firm's accounting, auditing, or attestation engagements)

208-8d-2

Question — What if a reviewed firm chooses not to discuss or make such communications or notifications available to the reviewer during the review?

Interpretation — If a firm fails to discuss such communications with the reviewer, the reviewer should immediately consult with the relevant administering entity because this constitutes a failure to cooperate, and the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated (see interpretations).