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PRP Section 3300

AICPA Peer Review Program Report Acceptance Body Handbook

Contents

Introduction 3

Chapter 1 Formation, Qualifications, and Responsibilities of the Administering Entity Peer Review Committee and Report Acceptance Bodies 4

I. Formation 4

II. Qualifications of Committee or RAB Members 5

III. Responsibilities of the Committee, RAB, and Committee Chair 9

IV. Guidance Materials for the AICPA Peer Review Program 12

V. Independence and Confidentiality 13

VI. Conflicts of Interest 16

VII. Example Familiarity Threat Policies and Procedures 17

Chapter 2 Technical Reviewer Qualifications and Responsibilities 22

I. Technical Reviewer Qualifications 22

II. Role of the Technical Reviewer 25

III. Guidance on Technical Reviews 26

IV. Technical Review of System Reviews 27

V. Technical Review of Engagement Reviews 29

VI. Technical Reviewers' Responsibilities Regarding Corrective Actions and Implementation Plans 32

Chapter 3 The Report Acceptance Process 36

I. Introduction 36

II. Preparation for a RAB Meeting 36

III. Review Acceptance Considerations 38

IV. Additional Inquiries or Actions by the RAB 41

V. Criteria for Delayed Acceptance or Deferral 42

VI. Reference Materials for RAB Meetings 44

VII. Considerations for the Recall of Peer Review Documents 44

Chapter 4 Objectives, Overview of System Review Process, and Evaluation and Acceptance of System Reviews 67

I. Objectives of a System Review 67

II. Expanded Overview of Objectives on a System Review and Where Team Captains and Report Acceptance Bodies Need to Focus 68

III. System Review Process 69

IV. Types and Consideration of Reports to Issue in a System Review 73

V. Guidance for Determining When and What Type of Corrective Action(s) or Implementation Plans to Require on System Reviews 74

Chapter 5 Objectives, Engagement Selection Process, Evaluation, and Acceptance of an Engagement Review 91

I. Objectives of an Engagement Review 91

II. Process a Review Captain Follows in Selecting, Evaluating, and Concluding on the Engagements Reviewed in an Engagement Review 91

III. Actual Review and Evaluation of Engagements and Other Documents 94

IV. Types and Consideration of Reports to Issue in an Engagement Review 96

V. Acceptance of Engagement Reviews by Technical Reviewer 97

VI. Guidance for Determining When and What Type of Corrective Action(s) or Implementation Plans to Require on Engagement Reviews 99

Chapter 6 Monitoring Corrective Actions and Implementation Plans 113

Corrective Actions 113

I. Monitoring Process 113

II. Requiring Additional Corrective Actions 114

III. Guidance When a Corrective Action Should be Replaced or Waived 116

IV. Determining Noncooperation of Reviewed Firms 118

Implementation Plans 124

I. Monitoring Process 124

II. Requiring Additional Implementation Plans 125

III. Guidance When an Implementation Plan Should Be Replaced or Waived 126

IV. Determining Noncooperation of Reviewed Firms 128

Chapter 7 Consultations and Disagreements 130

I. Consultations 130

II. Disagreements 133

III. Disagreement Panels 134

IV. Appeals of Disagreement Panel Decisions 136

V. Noncooperation 136

Chapter 8 Reviewer Qualifications, Responsibilities, and Performance 137

I. Overview 137

II. Reviewer Qualifications 138

III. Responsibility to Perform in a Timely and Professional Manner 144

IV. Reviewer Performance 150

V. Reviewer Qualifications—Allegations, Investigations, or Limitations or Restrictions 165

VI. AICPA Peer Review Board Hearing Panel and Ad Hoc Committee Procedures 176

Introduction

Purpose

The *AICPA Peer Review Program Report Acceptance Body Handbook* (RAB handbook) contains guidance developed by the AICPA Peer Review Board (board) to be used by administrators, administering entities peer review committees (committees), report acceptance bodies (RABs), technical reviewers, and reviewers. This handbook should be used in conjunction with the *AICPA Standards for Performing and Reporting on Peer Reviews* (standards), interpretations, other guidance, the *AICPA Peer Review Program Administrative Manual*, and the AICPA Peer Review Program Oversight Handbook. This handbook has been approved by the board and should be relied upon as guidance for the topics it covers.

Objectives

The objective of the RAB handbook is to provide guidance to committees, RABs, technical reviewers, and reviewers about their roles and responsibilities regarding the administration, acceptance, and completion of peer reviews.

Content and Use

The first two chapters focus on the qualifications and responsibilities of the administering entity peer review committee (chapter 1) and technical reviewers (chapter 2).

Chapter 3 explains the report acceptance process, beginning with preparing for the RAB meeting and outlining the items which must be considered for all reviews. The specific considerations concerning objectives; discussion of the engagement selection process; and evaluation and acceptance of reviews, including considerations of when and what type of corrective action(s) or implementation plans might be required are covered in chapter 4 (System Reviews) and chapter 5 (Engagement Reviews). Chapter 6 contains guidance for monitoring corrective action(s), determining when to require additional corrective actions when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required corrective action(s) or refuses to cooperate.

Chapter 7 discusses when and how to handle consultations and disagreements that may arise during the peer review process among the reviewed firm, reviewer, and administering entity. Chapter 8 explains the reviewer performance evaluation process and how to handle reviewer noncooperation matters.

The RAB handbook guidance does not contain all the standards and interpretations but references key sections to assist in the implementation of guidance and its understanding by committees, RABs, technical reviewers, and reviewers. Administering entities are expected to use the RAB handbook to ensure that their administration of the AICPA Peer Review Program (program) complies with the standards and interpretations.

Chapter 1

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

I. Formation

An administering entity appoints a peer review committee to oversee the administration, acceptance, and completion of peer reviews. The committee may decide to delegate a portion of the report acceptance

function to report acceptance bodies (RABs), whose members are not required to be, but may be, members of the committee as well (sec. 1000, *Standards for Performing and Reporting on Peer Reviews*, par. .132). It is recommended that the administering entity document its committee and RAB structure and relationship.

Individuals that commence, or plan to commence, enforcement[fn1] related work as a member, employee, consultant, volunteer (or other similar arrangement) of the AICPA or state CPA society ethics committee, the AICPA Joint Trial Board, a state board of accountancy (or other regulatory agencies, governmental bodies or similar groups or subgroups) are prohibited from serving on a committee or RAB.

An individual should contact his or her relevant administering entity or AICPA peer review staff if there is uncertainty as to whether he or she may be prohibited from serving on a peer review committee or RAB.

II. Qualifications of Committee or RAB Members

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

A. Committee Members

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

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. If a committee member's ability to perform peer reviews has been restricted as a result of an investigation performed by a regulatory agency such as AICPA's Professional Ethics Team ("Ethics"), the extent of the restriction will determine whether the individual meets the qualifications to be a committee member.

<u>Total Restriction</u>

A total restriction prohibits an individual from performing peer reviews in any capacity. If a total restriction is imposed, the individual no longer meets the qualifications and may not serve as a committee member until such restriction is removed.

[fn1] Performing duties within the framework of peer review is not considered enforcement related work

Limited Restriction

A limited restriction prohibits an individual from performing peer reviews in a specific capacity such as a limitation in a specific industry or engagement type (e.g. employee benefit plans or audits). If a limited restriction is imposed, the Oversight Task Force (OTF) will perform an assessment to evaluate the effect of the limited restriction on the individual's ability to serve as a committee member. The assessment includes, but is not limited to, understanding the nature of the investigation that led to the limited restriction and the conclusions of the investigation.

Reinstatement as a committee member would be at the discretion of the administering entity (AE) or committee if the restriction imposed by the regulatory agency has been removed.

B. RAB Members

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

   a. be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active in the accounting or auditing function, a report acceptance body 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 (Interpretation No. 132-1a).

   b. be associated with a firm (or all firms, if associated with more than one firm) that has received a report with a peer review rating of *pass* on its most recently accepted System or Engagement Review that was accepted timely, ordinarily within the last three years and six months (Interpretation No. 132-1b).

   c. if the member is from a firm that is a provider of quality control materials (QCM) or is affiliated with a provider of QCM and is required to have a QCM review under the standards, be associated with a provider firm or affiliated entity that has received a QCM report with a review rating of *pass* for its most recent QCM review that was submitted timely, ordinarily within six months of the provider's year-end.

   d. demonstrate proficiency in the standards, interpretations, and guidance of the program by completing training that meets the team captain training requirements established by the board within 12 months prior to serving on the committee or during the first year of service on the committee[fn 2] The peer review training and the criteria for demonstrating proficiency in the standards, interpretations, and guid-

[fn2] See Interpretation No. 33-1.

ance of the program is established from time to time by the board. Those criteria are located on the Peer Review page of the AICPA website. (Interpretation No. 132-1c).

e. demonstrate proficiency in the standards, interpretations, and guidance of the program by completing an introductory RAB training course developed by the AICPA, ordinarily within 12 months prior to serving on a RAB. This course is designed to cover the responsibilities of RAB members and address frequently asked questions of experienced RAB members. It will also address how recent changes in peer review guidance impact the RAB process. (Interpretation No. 132-1c).

f. be an AICPA member in good standing, whether conducting report acceptance body member duties for firms with or without AICPA members. (Interpretation No. 132-1d).

g. at least one member of the RAB considering a peer review that includes (1) engagements performed under *Government Auditing Standards* (GAS, also known as the Yellow Book) including engagements performed subject to the Single Audit Act (also known as Single Audits), (2) audits of employee benefit plans conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA), (3) audits of a federally insured depository institution (FDICIA) having total assets of $500 million or greater at the beginning of its fiscal year, (4) audits of broker-dealers or (5) examinations of service organizations (SOC 1 and SOC 2 engagements) must have **current** experience in such engagements or a national RAB consultant with the applicable experience may be utilized.

2. The committee and RABs should have broad industry knowledge in the specialized industries served by firms whose reviews are under consideration. However, it is unnecessary for all committee or RAB members considering such firms ’reviews to have knowledge in these specialized industries.

3. A majority of the RAB members and the chairperson charged with the responsibility for acceptance of System Reviews should possess the qualifications required of a System Review team captain. (Interpretation No. 132-1).

   A RAB member who is suspended or restricted from scheduling or performing peer reviews no longer meets the qualifications until such suspension or restriction is removed. If an individual’s ability to perform peer reviews has been restricted as a result of an investigation performed by a regulatory agency, such as Ethics, the extent of the restriction will determine whether the individual may serve as a RAB member.

   The descriptions and effects of total and limited restrictions above in II Qualifications of Committee or RAB Members, A. Committee Members applies to the qualifications of an individual to serve as a RAB member.

Reinstatement as a RAB member would be at the discretion of the AE or committee if the restriction imposed by the regulatory agency has been lifted.

C. National RAB List

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

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

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

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

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

5. To be considered a consultant on SOC 1 or SOC 2 engagements:

    a. Possess current knowledge of professional standards applicable to SOC 1 or SOC 2 examinations, including Type 1 and Type 2 reports, qualified and unqualified reports, carve in or carve out engagements, and engagements with and without relevant user entity controls.

    b. Have at least five years of recent experience in the practice of public accounting with a minimum of 500 hours of SAS 70/SOC 1 or SysTrust/SOC 2 examinations.

    c. Have provided the administering entity with information that accurately reflects the qualifications of the specialist, which is updated on a timely basis.

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

Overall General Responsibilities of the Committee

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

A. Oversee the peer reviews administered and performed in that state or in other states it has agreed to administer.

B. Establish procedures to ensure consistent application of the standards, interpretations, and other guidance related to overdue reviews, corrective actions, and plans to implement or complete corrective actions. The committee should periodically receive current statistical and other information on these matters from the administering entity staff.

C. Establish a comprehensive and written oversight program to ensure the program is performed in accordance with standards and guidance issued by the board. Administering entities are required to submit their oversight policies and procedures to the board on an annual basis. In conjunction with the administering entity personnel, the peer review committee establishes oversight policies and procedures that at least meet the minimum requirements established by the board. The *AICPA Peer Review Program Oversight Handbook* contains a detailed discussion of the minimum oversight requirements and the entire oversight process.

D. Review the adequacy of the back-up plan for key individuals (administrators and technical reviewers) involved in the administration of the program.

E. Form panels to address disagreements between the committee, peer review teams, and reviewed firms, referring instances of noncooperation to the board where appropriate.

F. Act upon requests from firms for changes in the timing and year-ends of their reviews.

G. Appoint persons to serve on committees and task forces as necessary to carry out its functions.

H. Monitor reviews that should have been performed but have not commenced or been finished, those in process not yet presented to the committee or RAB, and those that have been presented to the committee or RAB that have overdue corrective actions or otherwise where the firm may not be cooperating with the committee.

I. Monitor the reviewers performing reviews within their jurisdiction. This includes identifying when a reviewer is not fulfilling qualifications and all reviewer responsibilities in the performance of reviews. If the reviewer fails to maintain qualifications or responsibilities, the committee has the duty to determine if corrective actions or restrictions should be placed upon the reviewer.

J. Monitor performance of reviewers that have corrective actions or restrictions to determine if such actions or restrictions should be lifted or modified. If no improvement or lack of coopera-

tion is evident, the committee should request the board consider placing a national restriction or some other action on the reviewer.

K. Establish procedures that ensure fair procedures for reviewers that have disagreements with the administering entity.

L. Recommend to the Executive Committee (Board of Directors) of the administering entity policies governing the administration of the peer review program.

M. Evaluate the qualifications and competencies of the technical reviewers on an annual basis to give technical reviewers positive and constructive feedback.

Responsibility for Reviews Performed by Reviewers or Firms That Have Been Limited or Restricted

AEs and their peer review committees (PRCs) have a professional responsibility to ensure that reviews are being performed by qualified peer reviewers and reviewing firms and that they are addressing public interest concerns when considering any peer review documents for acceptance where the peer reviewer or reviewing firm has had a limitation or restriction placed. AEs and their PRCs will rely on various sources for information on limitations or restrictions that have been imposed, including the peer reviewer or reviewing firm's own professional responsibility in accordance with the AICPA Peer Review Program's Standards and Interpretations to inform the AICPA technical staff of such communications or notifications.

Report Acceptance Responsibilities

It is ultimately the committee's responsibility to ensure that it (or a RAB on its behalf) considers the results of peer reviews it administers that are undertaken to meet the requirements of the program (sec. 1000 par. .132). RABs should periodically report their decisions regarding acceptance and related conclusions to the committee.

RABs should be structured such that they may refer difficult or problem reviews to the committee for acceptance or concurrence, or both.

The committee's report acceptance body's responsibilities include, but are not limited to the following (sec. 1000 par. .133):

A. Ensure 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, or within 60 days for Engagement Reviews meeting certain criteria (see chapter 2, section V.B) (sec. 1000 par. .133*a*). Timely acceptance of peer reviews is important because delays may affect both the firm and peer reviewers within the firm. However, there are circumstances in which delays are unavoidable, including the following:

    1. Determination during technical review or presentation than an oversight should be performed

    2. Submitted peer review documentation requires significant revisions

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

4. Enhanced oversight procedures

5. Disagreements between reviewer, reviewed firm and RAB

B. Consider whether the review has been performed in accordance with the standards, interpretations, and related guidance materials (sec. 1000 par. .133*b*).

C. Consider whether the report and the response thereto, if applicable, are in accordance with the standards, interpretations, and related guidance materials, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its letter of response, if any (sec. 1000 par. .133*c*).

D. Determine whether it should require any remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions include, but are not limited to, requiring certain individuals to obtain specified kinds and specified amounts of continuing professional education (CPE), requiring the firm to carry out comprehensive monitoring procedures, or requiring the firm to engage another CPA to perform pre-issuance or post-issuance reviews of financial statements, reports, and accounting and audit documentation to attempt to strengthen the performance of the firm's personnel (sec. 1000 par. .133*d*).

E. In relation to Finding for Further Consideration (FFC)

1. consider whether FFC (and associated Matter for Further Consideration [MFC] and Disposition of Matter for Further Consideration [DMFC]) forms are prepared in accordance with the standards, interpretations, and related guidance materials, including whether the findings addressed on the FFC forms should have been included in a report with a peer review rating of *pass with deficiencies* or *fail* (sec. 1000 par. .133*e*1).

2. determine the adequacy of the plan the reviewed firm has represented it has implemented or will implement in its response on the FFC form(s) (sec. 1000 par. .133*e*2).

3. determine whether it should require an implementation plan in addition to or as an affirmation of the plan described by the reviewed firm in its response to findings on the FFC form(s) (sec. 1000 par. .133*e*3).

F. Ensure that all corrective actions related to deficiencies or significant deficiencies in the peer review report and all implementation plans related to findings on FFC forms have been completed to the satisfaction of the committee (sec. 1000 par. .133*f*).

G. Ensure that all firms within its jurisdiction have timely peer reviews and keep track of the timing of the completion of corrective actions and plans to implement corrective actions by all firms for

which the committee has required corrective actions, including those that are overdue (sec. 1000 par. .133*g*).

Peer Review Committee Chair Responsibilities

The committee chair has overall responsibility to ensure the administering entity adheres to all of the responsibilities previously outlined. The chair should

A. consult with the staff (including AICPA staff) and committee members, as needed.

B. stimulate group thinking, encourage and channel discussions in a productive direction, weigh the value of expressed ideas and suggestions, summarize constructive suggestions, seek out decisions, avoid situations where one or two people dominate the discussion inappropriately, and keep committee meetings on target and within reasonable time limits.

C. ensure that accurate meeting minutes are kept, necessary reports prepared, and a record of committee work maintained, and keep informed of the progress of committee assignments.

D. recommend appropriate members for appointment to the committee; select appropriate committee members to serve on RABs, subcommittees, and task forces; and motivate them toward active and productive involvement in committee activities.

E. continually review and evaluate the committee's program, the progress being made on activities, and the contributions of individual committee members and the technical reviewer(s) to the committee's work.

F. be a consultant or mentor to reviewers and firms undergoing review.

G. review the comments received from the AICPA Peer Review Board Oversight Task Force on reviews selected for oversight by AICPA staff. Communicate the comments to the committee, technical reviewers, administrators, oversight reviewer (if applicable), and team captain or review captain where appropriate. A procedure to review and properly act upon each comment should be developed. The comments may be used by the administering entity in monitoring performance and consideration should be given to sending appropriate performance feedback to the team captain or review captain and technical reviewer.

IV. Guidance Materials for the AICPA Peer Review Program

The activities of the committee and RABs should be carried out in accordance with administrative procedures and guidance issued by the board (sec. 1000 par. .132). In order to assist committee and RAB members in adhering to the guidance, they should have access to the applicable and appropriate materials to carry out their responsibilities.

A. *AICPA Peer Review Program Manual*

The current standards, interpretations, guidelines, peer review checklists, and other guidance materials developed by the board for the administration, performance, and reporting the results of peer reviews are contained in the *AICPA Peer Review Program Manual.*

B. *AICPA Peer Review Program Report Acceptance Body Handbook*

The *AICPA Peer Review Program Report Acceptance Handbook* should be used by committees, RABs, technical reviewers, and administrators in the administration, acceptance, and completion of peer reviews. The manual is updated as necessary and is included as section 3300 of the *AICPA Peer Review Program Manual*.

C. AICPA Peer Review Website

Additional guidance that should be considered by reviewers and administering entities also appears on the AICPA peer review website at www.aicpa.org/interestareas/peerreview.html.

D. *AICPA Peer Review Program Administrative Manual*

The *AICPA Peer Review Program Administrative Manual* should be used as guidance and a reference tool for those administering the program. The manual is updated as necessary and made available to approved administering entities and located on the AICPA SharePoint extranet.

E. *AICPA Peer Review Program Oversight Handbook*

The *AICPA Peer Review Program Oversight Handbook* should be used as guidance and a reference tool related to the oversight procedures performed on the program. The manual is updated as necessary and made available to approved administering entities and located on the AICPA SharePoint extranet.

F. *Annual Report on Oversight*

The AICPA Peer Review Board Oversight Task Force issues an *Annual Report on Oversight*. The purpose of the report is to provide a general overview; past and current statistics and information; the results of the various oversight procedures performed on the program; and to conclude on whether the objectives of the board's oversight process were met. The report is available on the AICPA website.

V. Independence and Confidentiality

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 (sec. 1000 par. .21). Committee or RAB members may not participate in any discussion or have any vote with respect to a reviewed firm if the member lacks independence or has a conflict of interest with the reviewing firm, the reviewer, or the reviewed firm (sec. 1000 par. .132).

Each member appointed to serve on a committee or RAB is obligated to adhere to the AICPA Peer Review Program's confidentiality requirements set forth in the "Confidential Client Information Rule" (AICPA, *Professional Standards*, ET sec. 1.700.001).

A. Confidentiality Requirements

Except as discussed in B. in the following text, information concerning the reviewed firm or any of its clients or personnel obtained as a consequence of the review is confidential. Such information should not be disclosed, except as required by law, by review team members, or by administering entities to anyone not involved in performing the review, or administering or carrying out the program, or used in any way not related to meeting the objectives of the program (sec. 1000 par. .20).

B. Publicizing Peer Review Information

Neither the administering entity nor the AICPA shall make the results of the review, or information related to the acceptance or completion of the review, available to the public, except as authorized or permitted by the firm under certain circumstances. The administering entity and the AICPA may disclose the following information (sec. 1000 par. .146):

1. The firm's name and address (sec. 1000 par. .146*a*)
2. The firm's enrollment in the program (sec. 1000 par. .146*b*)
3. The date of acceptance and the period covered by the firm's most recently accepted peer review (sec. 1000 par. .146*c*)
4. If applicable, whether the firm's enrollment in the program has been dropped or terminated (sec. 1000 par. .146*d*)

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

1. The date the review is or was scheduled to take place
2. The name of the reviewing firm, team captain or review captain
3. If the fieldwork on the peer review has commenced
4. The date the exit conference was expected to or did occur
5. A copy of any extension approval letters
6. Whether the peer review working papers have been received by the administering entity
7. Whether a must select engagement was included in the scope as required by the standards
8. If a technical review is in process
9. Whether the review has been presented to a RAB
10. The date the review is expected to be presented to a RAB

11. If an overdue letter has been issued and the reason for the letter has not been addressed. Third parties should be specific regarding the reason for the overdue letter that they are inquiring about such as overdue letters for failure to submit scheduling information.

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

1. Stating solely that the review is "in process" or responding to an inquiry solely regarding what the "general status" of a peer review is

2. The peer review report rating prior to the peer review's acceptance

3. Whether there are indications that the firm, reviewing firm, team captain, or review captain are cooperating (or not cooperating) with the AICPA or administering entity

4. An indication of the quality or completeness of peer review working papers received by the administering entity

5. Reasons why peer review working papers, implementation plans, or corrective actions are late

6. Whether a firm is close to submitting documents or completing implementation plans or corrective actions

7. Reasons for, or the likely outcome if the firm is going through fair procedures to determine whether it is cooperating with the AICPA or administering entity

C. Confidentiality Statement

An administering entity should annually request the members of its peer review committee and RABs to sign a statement acknowledging their appointment and the responsibilities and obligations that are entailed (exhibit 1-1).

D. Storage of Confidential Materials

Committee and RAB members must file or temporarily maintain confidential materials in a secure and separate location from the firm's general office files. On a quarterly basis, these files should be reviewed and old documents destroyed in a method that ensures confidentiality.

E. Transmitting Confidential Materials

Each administering entity should adopt procedures for mailing or sending (that is, via the internet) information to committee and RAB members ensuring confidentiality.

These procedures may specify that

1. no materials of a confidential nature may be faxed between staff and committee and RAB members unless arrangements are made to ensure confidentiality. Some examples of confidential materials include committee or RAB meeting minutes, working papers, and various letters and reports that may discuss the status of a review.

2. all confidential materials sent, other than those transmitted electronically through a secure website, to committee and RAB members will be so marked on the first page of the document.

3. envelopes containing confidential materials for committee and RAB members will be marked "Personal & Confidential." The committee and RAB members should instruct their staff not to open these materials or the staff will be bound by the same confidentiality requirements as the committee and RAB member.

4. all confidential materials that are made available to committee and RAB members in electronic format should provide for a security system or some other means to ensure that only committee and RAB members will be able to access confidential information.

VI. Conflicts of Interest

Committee and RAB members may not participate in any discussion or have any vote with respect to a reviewed firm if the member lacks independence or has a conflict of interest with the reviewing firm, the reviewer, or the reviewed firm (sec. 1000 par. .132). Conflict of interest applies to the firm being reviewed and the reviewer performing the review including his or her firm. Examples of conflicts of interest include the following situations:

A. The committee or RAB member's firm performed the most recent or immediately preceding peer review of the affected firm.

B. The committee or RAB member served on the review team that performed the most recent or immediately preceding peer review of the affected firm.

C. The committee or RAB member believes he or she could not be impartial or objective.

D. The committee or RAB member's independence is impaired due to criteria established in Interpretation No. 21-1 of the standards.

If an individual performs oversight on a peer review at a committee request, that individual will be allowed to participate in or be present during any discussion related to acceptance of the peer review of the firm subject to oversight but would not be allowed to vote on any motion related to the firm's review.

VII. Example Familiarity Threat Policies and Procedures

A familiarity threat is the threat that due to a long-standing or close personal relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work (ET 1.000.010.12).

Administering entities (AEs) should maintain objectivity in discharging their responsibilities and not allow bias, or undue influence of others to override professional or business judgements. Familiarity threats can exist among committees/RABS, technical reviewers, peer reviewers, and firms subject to peer review.

AEs should perform an analysis to identify familiarity threats, evaluate the significance, and apply safeguards to mitigate the threat. This is also the responsibility of committee/RAB members; therefore, they should be involved in this process. Each AE should tailor their familiarity threat policies and procedures to address their specific risks.

Examples of familiarity threats and potential safeguards used to mitigate the threat are listed below. These examples are not all inclusive and may not be applicable to every AE. In some instances, a safeguard could mitigate more than one threat, although depending on the significance of the threat, more than one safeguard may be necessary to properly mitigate.

Example A Familiarity Threat—The peer reviews of the technical reviewers' and committee/RAB members' firms are presented for acceptance.

Potential safeguards to mitigate the threat

- The technical reviewers' and committee/RAB members' peer reviews will be accepted by a different AE. We have partnered with AE "A" and have attached the agreement as addendum B.
- The AE is split in more than one district, for example, East and West. The committee/RAB accepts reviews from a district other than their own.
- All firm and reviewer identifying information is redacted from the RAB materials.
- The CPA on staff monitors the RAB process and reports preferential treatment or inconsistencies in the process.
- The AE will designate a committee member (or other qualified individual) as an observer of RAB meetings to monitor the RAB process and report preferential treatment or inconsistencies in the process.
- Arranging for RAB members from other AEs to participate in RABs periodically.
- The peer reviews of the technical reviewers' and committee/RAB members' firms are included in the annual oversight selections.

Example B Familiarity Threat—The peer reviews performed by the technical reviewers and committee/RAB members are presented for acceptance.

Potential safeguards to mitigate the threat

- The peer reviews performed by the technical reviewers and committee/RAB members will be accepted by a different AE. We have partnered with AE "A" and have attached the agreement as addendum B.
- The AE is split in more than one district, for example, East and West. The committee/RAB accepts reviews from a district other than their own.
- All firm and reviewer identifying information is redacted from the RAB materials.
- The CPA on staff monitors the RAB process and reports preferential treatment or inconsistencies in the process.
- The AE will designate a committee member (or other qualified individual) as an observer of RAB meetings to monitor the RAB process and report preferential treatment or inconsistencies in the process.
- Arranging for RAB members from other AEs to participate in RABs periodically.
- The peer reviews performed by the technical reviewers and committee/RAB members are included in the annual oversight selections.

Example C Familiarity Threat—The committee/RAB members have a long-standing relationship with the technical reviewers, which leads to overreliance of the technical reviewer's procedures and conclusions. For instance, it may not be apparent if an issue or a non-conforming engagement has been addressed, yet the committee/RAB decide not to investigate because they believe the technical reviewer would not have missed the issue.

Potential safeguards to mitigate the threat

- Engaging qualified individuals from another state to perform technical reviews periodically.
- Arranging for RAB members from other AEs to participate in RABs periodically.
- Engaging a second technical reviewer to perform a selection of secondary technical reviews of high-risk reviewers, firms, and random samples.

Example D Familiarity Threat—The committee/RAB members have long-standing relationships with some reviewers, particularly those who perform a high volume of reviews.

Potential safeguards to mitigate the threat

- Periodically arrange for another AE to accept peer reviews performed by the AE's high volume reviewer(s).
- All firm and reviewer identifying information is redacted from the RAB materials.
- At the beginning of each meeting, remind committee/RAB members to identify relationships with reviewers and reviewed firms.

Example E Familiarity Threat—Technical reviewers have long-standing relationships with some reviewers, particularly those who perform a high volume of reviews.

Potential safeguards to mitigate the threat

- Engaging qualified individuals from another state to perform technical reviews periodically.
- Periodically arrange for another AE to accept peer reviews performed by the AE's high volume reviewer(s).
- Engaging a second technical reviewer to perform a selection of secondary technical reviews of high-volume reviewers.

- The peer reviews of high-volume reviewers are included in the annual oversight selections.

Example F Familiarity Threat—AEs are hesitant to provide feedback or consider deficiency letters for a variety of reasons including, but not limited to the following:

- RAB members know the reviewer.
- Reviewer performs a high volume of reviews in the state and RAB is afraid to offend him/her.
- Reviewer is a RAB member (current or former) or is a technical reviewer.
- Reviewer teaches for the society or has some other society relationship which leads to a belief that the individual knows what they are doing.

Potential safeguards to mitigate the threat

- Engaging qualified individuals from another state to perform technical reviews periodically.
- Arranging for RAB members from other AEs to participate in RABs periodically.
- All firm and reviewer identifying information is redacted from the RAB materials.

Example G Familiarity Threat— Committee member given informal feedback on reviews they performed while a different reviewer is issued written feedback for the same issue.

Potential safeguards to mitigate the threat

- Arranging for RAB members from other AEs to participate in RABs periodically.
- All firm and reviewer identifying information is redacted from the RAB materials.
- The CPA on staff monitors the RAB process and reports preferential treatment or inconsistencies in the process.
- The AE will designate a committee member (or other qualified individual) as an observer of RAB meetings to monitor the RAB process and report preferential treatment or inconsistencies in the process.

Example H Familiarity Threat— RAB members will mention a firm's reputation regarding a specific industry concentration when presented with issues (generally documentation and implying that since issues were not identified previously, it is unlikely issues exist now despite evidence to the contrary).

Potential safeguards to mitigate the threat

- Arranging for specialists from other states to participate in RABs.
- All firm and reviewer identifying information is redacted from the RAB materials.

Exhibit 1-1 — Committee or RAB Appointment & Confidentiality Confirmation

[*Date*]

[*Name and Address of Committee Member*]

Dear [*Mr. or Ms.*] [*Last Name of Committee or RAB Member*]:

It is my pleasure to formally notify you that you have been appointed to serve on the [*Administering Entity Peer Review Committee*] for the [*period*] committee year. We know you have many demands on your volunteer time. We appreciate your willingness to use a part of that time to serve our profession. We hope you benefit as much by your volunteer service as much as the committee benefits from having individuals willing to volunteer.

As a committee member, you have a responsibility to exert your efforts towards achieving the committee's objectives through preparation for and attendance at its meetings and participation in its deliberations. You also have an obligation to adhere to the confidentiality requirements described in the AICPA's *Standards for Performing and Reporting on Peer Reviews* (standards). Thus, you agree not to divulge information that would identify any firm, its clients or personnel, peer reviewer/reviewing firm or other information obtained as a result of your responsibilities. You agree not to discuss or disclose such information to anyone not involved in carrying out the review or administering the AICPA Peer Review Program (program) or use it in any way not related to meeting the objectives of the Program.

If you commence, or plan to commence, enforcement related work as a member, employee, consultant, volunteer (or other similar arrangement) of the AICPA or state CPA society ethics committee, AICPA Joint Trial Board, a state board of accountancy or other regulatory agencies, governmental bodies or similar groups or subgroups, you agree to notify the [*Administering Entity Peer Review Committee*] immediately. Such involvement would prohibit you from serving on the committee.

Please confirm your acceptance of this appointment and the responsibilities and obligations it entails by signing a copy of this letter in the space provided and returning it to me. If you have any questions, please feel free to call me.

Sincerely,

[*Name*]

[*Title*]

I understand that each Committee or RAB member charged with the responsibility for accepting reviews should be

- Be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program, as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities. To be considered currently active in the accounting or auditing function, a committee 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 (Interpretation No. 132-1a).

- 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 (Interpretation No. 132-1b).

- Demonstrate proficiency in the standards, interpretations, and guidance of the program by completing training that meets the team captain training requirements established by the board within 12 months prior to serving on the committee or during the first year of service on the committee (Interpretation No. 132-1c).

- Be an AICPA member in good standing, whether conducting report acceptance body duties for firms with or without AICPA members (Interpretation No. 132-1d).

- Inform the administering entity when commencing or planning to commence enforcement related work as a member, employee, consultant, volunteer (or other similar arrangement) of:

  - The AICPA or state CPA society ethics committee

  - The AICPA Joint Trial Board

  - A state board of accountancy of other regulatory agencies, governmental bodies or similar groups or subgroups

  Such involvement prohibits individuals from serving in this role.

- Adhere to the confidentiality requirements of the *Standards for Performing and Reporting on Peer Reviews.*

- Mitigate familiarity[fn 3] threats that can exist among Committees/RABs, technical reviewers, peer reviewers and firms by following the safeguards in accordance with (*Name of administering entity*) policy and procedures.

I accept this appointment and the responsibilities and obligations, included but not limited to, those outlined above.

Signed: _____

Date: _____

[fn 3] Familiarity threats are defined as "the threat that, due to a long or close relationship with a client, a member will become too sympathetic to the client's interests or too accepting of the client's work or product" (ET 1.000.010.12).

Chapter 2

Technical Reviewer Qualifications and Responsibilities

I. Technical Reviewer Qualifications

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

1. Demonstrate proficiency in the standards, interpretations, and guidance of the program by completing within the 12 month period preceding the commencement of the technical review 1 or more training courses that are applicable to the type of peer review being evaluated and that meet the requirements of the team captain or review captain training requirements established by the board (Interpretation No. 132-1a).

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

    In order to maintain qualifications of a team captain or review captain, individuals should meet the ongoing training requirements. Training courses that meet such requirements are available on the Peer Review page of the AICPA website.

2. Demonstrate proficiency in the standards, interpretations, and guidance of the program by completing an introductory technical reviewer training course developed by the AICPA ordinarily within 12 months prior to serving as a technical reviewer. Additionally, all technical reviewers should complete or attend one of the following options in every calendar year thereafter:

    - a technical reviewer update training course developed by the AICPA
    - the annual Peer Review Conference

    These educational offerings are designed to cover the responsibilities of technical reviewers and address frequently asked questions and issues encountered by experienced technical reviewers. They will also address how recent changes in peer review guidance impact the technical review process. (Interpretation No. 132-1a).

3. Be an AICPA member in good standing, whether conducting technical reviewer duties for firms with or without AICPA members (Interpretation No. 132-1d).

4. Participate in at least one peer review each year, which may include participation in an on-site oversight of a System Review (Interpretation No. 132-1b). The goal of this requirement is for technical reviewers who do not perform reviews to gain hands-on experience on how peer reviewers and reviewed firms solve practical problems, and to aid in identifying issues while performing technical reviews. Technical reviewer participation should not add any additional cost to the reviewed firm's peer review. The administering

entity will decide whether the technical reviewer has met the participation requirements which, at a minimum, should include the following:

- Review and discuss the planning and scope of the peer review
- Review the engagement checklists completed by the review team
- Attend meetings or participate in conference calls between the team captain and reviewed firm to discuss issues encountered during the peer review
- Attend the exit conference or participate in a pre-exit conference call with the team captain to discuss aggregation and evaluation of matters identified and the type of report to issue

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

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

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

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

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

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

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

A technical reviewer who also is a peer reviewer and is suspended or restricted from scheduling or performing peer reviews no longer meets the qualifications until such suspension or restriction is removed.

If an individual's ability to perform peer reviews has been restricted as a result of an investigation performed by a regulatory agency, such as AICPA's Professional Ethics Team ("Ethics"), the extent of the restriction will determine whether the individual still meets the qualifications to be a technical reviewer.

Total Restriction:

A total restriction prohibits an individual from performing peer reviews in any capacity. If a total restriction is imposed, the individual no longer meets the qualifications and may not serve as a technical reviewer until such restriction is lifted.

Limited Restriction:

A limited restriction prohibits an individual from performing peer reviews in a specific capacity such as limited to a specific industry or engagement type (e.g. employee benefit plans or audits). If a limited restriction is imposed, the OTF will perform an assessment to evaluate the effect of the limited restriction on the individual's ability to serve as a technical reviewer. The assessment includes, but is not limited to understanding the nature of the investigation that led to the limited restriction and the conclusions of the investigation.

Reinstatement as a technical reviewer would be at the discretion of the administering entity or committee if the restriction imposed by the regulatory agency has been removed.

B. Evaluation of Technical Reviewer

The administering entity peer review committee is responsible for evaluating the qualifications and competencies of the technical reviewers on an annual basis to give technical reviewers positive and constructive feedback.

C. Independence, Confidentiality, and Conflict of Interest

Individuals that commence enforcement[fn4] related work as a member, employee, consultant, volunteer (or other similar arrangement) of the AICPA or State CPA society ethics committee, the AICPA Joint Trial Board, a state board of accountancy (or other regulatory agencies, governmental bodies or similar groups or subgroups) are prohibited from performing technical reviews. An individual should contact his or her relevant administering entity or AICPA peer review staff if there is uncertainty as to whether he or she is prohibited from serving as a technical reviewer.

Technical reviewers are subject to the same independence, confidentiality, and conflict of interest rules that apply to committee and report acceptance body (RAB) members. See guidance in chapter 1, sections V and VI. This includes, but not limited to, annually signing a confidentiality letter.

II. Role of the Technical Reviewer

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

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

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

[fn4] See footnote 1.

B. The technical reviewer should not present reviews during a RAB meeting or make decisions on a review on behalf of the RAB (except for certain Engagement Reviews as described in section V). This does not preclude the technical reviewer from presenting matters requiring consultation to the RAB or matters of an administrative nature.

C. The technical reviewer looks at the materials in more depth than the RAB. However, the technical reviewer is not performing the type of review that would be performed by an audit partner or a pre-issuance reviewer.

D. The technical reviewer performs a complete working paper review on all committee-appointed review team (CART) Engagement Reviews and, when deemed necessary, on certain firm-on-firm reviews.

E. If the technical review is performed by a member of the peer review committee, such member should abstain from participating in the presentation, discussion, and acceptance of that review. The technical reviewer or committee member's participation should be limited to addressing any questions the committee or RAB may have on the review under consideration.

F. If a technical reviewer performs oversight on an Engagement Review, the technical review may be performed by the same individual; however, the Engagement Review should go to the committee or a RAB for acceptance. Also, if the technical reviewer is also a committee member, he or she should not vote in the acceptance of an engagement peer review for which he or she has performed oversight.

G. Another function of the technical reviewer is to maintain certain information regarding peer reviews. The information that is to be maintained is outlined in the *AICPA Peer Review Program Technical Reviewer's Checklists*. This information should be entered into the peer review program computer system. Technical reviewers should work with the administrating entity's administrator to ensure this information is entered into the peer review computer program.

III. Guidance on Technical Reviews

A. The AICPA Peer Review Board has provided guidance on the nature and extent of the technical review function in the form of the *AICPA Peer Review Program Technical Reviewer's Checklists* (section 3400 of the *AICPA Peer Review Program Manual*).

B. Technical reviewers should also have access to the following materials to carry out their responsibilities:

- *AICPA Peer Review Program Manual*
- *AICPA Peer Review Program Report Acceptance Body Handbook* (Section 3300 of the *AICPA Peer Review Program Manual)*
- AICPA Peer Review website (Peer Review Alerts)
- *AICPA Peer Review Program Administrative Manual*

- *AICPA Peer Review Program Oversight Handbook*
- *AICPA Peer Review Program Annual Report on Oversight*
- Reviewer Monitoring Report

See chapter 1, section IV for a description of the previous materials.

IV. Technical Review of System Reviews

A. For System Reviews, the technical reviewer will ordinarily review the following documents:

1. Peer review report
2. Letter of response, if applicable
3. Prior peer review report; letter of response and Finding for Further Consideration (FFC) form, if applicable; firm representation letter and committee decision letters
4. Summary review memorandum
5. Disposition of Matter for Further Consideration (DMFC) form, as applicable
6. Matter for Further Consideration (MFC) and FFC forms, as applicable
7. Firm representation letter
8. Oversight report, as applicable
9. When the RAB has delegated the review of single audit engagement(s) to the technical reviewer(s), the engagement profile and Section 22100 — Part A — UG, *Supplemental Checklist for Review of Single Audit Engagements*
10. 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
11. Appendix A, "Explanation of No Answers," for PRPM section 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"

For reviews administered by the National Peer Review Committee (National PRC), in addition to the previously mentioned, the technical reviewer will ordinarily review all other working papers incorporated by reference and, as applicable, including engagement checklists, quality control

documents and related practice aids, staff interview or focus group or other interview sessions, planning documents, and any other relevant documents.

B. The function of the technical review is to evaluate whether the documents reviewed all "hang together," including the following:

    1. Has an appropriate risk analysis been documented?

    2. Did the team captain use a systemic approach?

    3. Do the peer review documents support the type of report and the FFCs?

    4. Does the firm's letter of response, if applicable, agree with matters discussed in the peer review report, and does it address each deficiency or significant deficiency and applicable nonconforming engagements?

    5. Does the firm's planned or taken remediation of nonconforming engagements appear appropriate and in accordance with professional standards?

    6. Does the reviewer's documentation reflect appropriate consideration of peer review implications of nonconforming engagements and the firm's response?

    7. Do the firm's FFC responses appear appropriate and responsive?

    8. Does the DMFC support the disposition of all the MFCs and does the disposition appear appropriate?

C. The technical reviewer should complete the technical reviewer's checklist and include any comments that the RAB may need to properly evaluate the review. This includes the following:

    1. Comments on the overall effect of matters, findings deficiencies, or significant deficiencies on the review results.

    2. Comments on weaknesses of the peer review working papers so the RAB can properly evaluate the review, the team captain or review team's performance, and the need for reviewer performance feedback.

    3. Comments on whether the reviewer identified in the report the systemic cause(s) for any deficiencies or significant deficiencies.

    4. Comments on scope of engagements selected for review.

    5. Other comments that will help the committee or RAB and are not apparent from the peer review documents. These are matters such as most of the matters, findings, or deficiencies relate to one office, one owner, or were only found on certain types of engagements.

    6. Comments on engagements not performed or reported on in conformity with professional standards, including the firm's planned or taken remediation, the reviewer's consideration

of the nonconforming engagement on the peer review such as scope expansion, potential reporting implications, and if the reviewer adequately considered implications of an unresponsive firm.

7. Comments on whether the firm should be asked to complete certain corrective actions or implementation plans and suggestions on these actions or plans, if applicable.

8. Comments on whether the reviewer identified deficiencies and appropriately distinguished between MFC and FFC.

9. Comments on the team captain's performance and the need for reviewer performance feedback, if applicable.

10. Whether reviews or FFC implementation plans should be delayed or deferred until documentation has been corrected.

11. Whether there are any contentious issues related to a specific industry or must select engagement which could impact the peer review results. If there are such issues, one member of the RAB must have current experience in that industry.

D. For reviews administered by the National PRC, those meeting certain criteria are subjected to a concurring technical review.

E. All System Reviews should be presented to a RAB in a timely manner, ordinarily within 120 days of the later of receipt of the working papers and peer review report from the team captain, or if applicable, the report with a peer review rating of *pass with deficiencies* or *fail* and the related letter of response from the reviewed firm (sec. 1000 par. .133*a*).

V. Technical Review of Engagement Reviews

A. For Engagement Reviews, the technical reviewer will ordinarily review the following documents:

1. Peer review report

2. Letter of response, if applicable

3. Prior review report; letter of response and FFCs, if applicable; firm representation letter and committee decision letters

4. Firm representation letter

5. Review Captain Summary

6. DMFC form, as applicable

7. MFC and FFC forms, as applicable

8. Engagement Summary Form

9. Oversight report, as applicable

For committee-appointed review team (CART) peer reviews, in addition to the previously mentioned, the technical reviewer will ordinarily review all other working papers prepared by the review captain.

B. The technical reviewer should be delegated the authority from the committee to accept Engagement Reviews in certain circumstances (sec. 1000 par. .137).

1. 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 both of the following (Interpretation No. 137-1):

   - Any matters documented (or which should have been documented) on MFC forms <u>only relate to compilations or preparations performed under Statements on Standards for Accounting and Review Services (SSARS)</u> **and** <u>do not rise to the level of a finding, deficiency, or significant deficiency</u>.

   - 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.

2. 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 (Interpretation No. 137-1).

3. Engagement Reviews that do not require committee or RAB consideration are required to be accepted within 60 days of receipt of the working papers and report from the review captain.

4. The technical reviewer's report acceptance procedures should include completion of the technical reviewer's checklist and in addition the technical reviewer should

   a. consider whether the review has been performed in accordance with the standards, interpretations, and related guidance materials.

   b. consider whether the report is in accordance with the standards, interpretations, and related guidance materials.

c. provide reviewer performance feedback recommendations to the committee or RAB on performance issues, if necessary.

d. consider whether the Engagement Review should be presented to the committee or RAB for its consideration.

5. Procedures for Committee or RAB Acknowledgement of Engagement Reviews Accepted by the Technical Reviewer

   A list of Engagement Reviews (meeting the criteria, as previously stated in [1.]), which have been accepted by the technical reviewer, should be prepared and sent to the committee or RAB members, along with recommendations for reviewer performance feedback, if any. Although technical reviewers may make reviewer performance feedback recommendations to the committee or RAB, it is the responsibility of the committee to evaluate the reviewer's performance to help ensure that reviewers perform and report on peer reviews in accordance with the standards. See chapter 8.

6. Acceptance and Completion Date of Reviews Accepted by the Technical Reviewer on Behalf of the Committee or RAB

   The review acceptance date and completion date is the date that the technical reviewer completes the review of the peer review documents and determines that (1) there are no matters documented (or which should have been documented) on MFC forms relating to engagements other than compilations or preparations performed under SSARS, and such matters and do not rise to the level of a finding, deficiency, or significant deficiency and (2) there are no other issues with the review warranting committee or RAB consideration or action. The acceptance date (also the completion date) is noted on the letter from the administering entity to the reviewed firm.

7. Because a technical reviewer may be accepting peer reviews on behalf of the committee, the independence rules regarding report acceptance will apply to technical reviewers with respect to their acceptance of Engagement Reviews. See independence rules at sec. 1000 par. .21–.22.

C. For Engagement Reviews that require committee or RAB consideration, the technical reviewer should complete the technical reviewer's checklist and include any comments that the RAB may need to properly evaluate the review. This includes the following:

   1. Comments on the evaluation of engagement matters, findings, deficiencies, and significant deficiencies so the RAB can evaluate the appropriateness of the report

   2. Comments on weaknesses of the peer review working papers so the RAB can properly evaluate the review and the review captain's or review team's performance

   3. Comments on engagement selection

4. Comments on engagements not performed or reported on in conformity with applicable professional standards, including the firm's planned or taken remediation

5. Comments on the review captain's performance and the need for reviewer performance feedback

6. Comments on whether, based on RAB handbook guidance, the firm should be asked to complete certain corrective actions or implementation plans and suggestions on these actions or plans, if applicable

7. Comments on whether the reviewer identified deficiencies and appropriately distinguished between MFC and FFC

D. The technical reviewer performs a complete working paper review on all CART Engagement Reviews and, when questions cannot be resolved, on certain firm-on-firm reviews.

VI. Technical Reviewers' Responsibilities Regarding Corrective Actions and Implementation Plans

A. Recommendation of Corrective Actions and Implementation Plans

It is the peer review committee's responsibility to determine whether it should require any remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to actions described by the reviewed firm in its letter of response, and whether it should require an implementation plan in addition to the plan described by the reviewed firm in its response to the findings on the FFC form(s). However, as part of the technical review process, the technical reviewer may make recommendations of corrective actions and implementation plans to the committee or RAB as appropriate.

B. It is the peer review committee's responsibility to determine appropriate due dates for corrective actions and implementation plans. However, approval of due date changes may be delegated to the technical reviewer in some instances. The committee or RAB should consider the nature of corrective actions or implementation plans and the background and experience of the technical reviewer in deciding if the technical reviewer should be authorized to approve due date changes of corrective actions or implementation plans.

The committee or RAB may delegate the approval of due date changes of corrective actions and implementation plans when they meet all the following criteria:

- The firm requested the due date change before the due date
- The new due date is 3 months or less from the original due date

When a request meets the criteria above, technical reviewers should still apply professional skepticism and may submit the request to a RAB. Reasons to submit to a RAB may include but are not limited to the firm's history and experience from the technical review process.

C. It is the peer review committee's responsibility to ensure that all corrective actions related to deficiencies or significant deficiencies in the peer review report, and all implementation plans related to findings on FFC forms, have been completed to the satisfaction of the committee. How-

ever, review and acceptance of completed corrective actions and implementation plans may be delegated to the technical reviewer in some instances.

In such instances, the technical reviewer should review the results of corrective action(s) or implementation plans to determine if they meet the requirements imposed or approved by the RAB. The committee or RAB should consider the nature of corrective action(s) or implementation plans and the background and experience of the technical reviewer in deciding if the technical reviewer should be authorized to review and act on the results of corrective action(s) or implementation plans. The committee or RAB should consider the following guidance in deciding whether or not the technical reviewer should be authorized to review and approve results of corrective action(s) or implementation plans.

1. A technical reviewer may accept corrective actions or implementation plans where there are clearly identifiable actions or procedures requested of the firm. Clearly identifiable steps include, but are not limited to, the following:

    a. Submit proof of CPE taken

    b. Review of formal CPE plan by outside party

    c. Submit proof of purchase of third-party provided materials

    d. Submit proof of licensure

    e. Submit proof of a specific correction to an engagement which was not performed or reported on in conformity with applicable professional standards in all material respects

    f. Submit engagements completed subsequent to the peer review that demonstrate correction or resolution of similar matters identified on engagements considered in the review

    g. Submit a report by an outside party (ordinarily the reviewer) approved by the committee or RAB on the results of actions specified by the committee or RAB, especially related to review of engagements completed subsequent to the peer review, and where the outside party reports the firm's actions were favorable and, as a result, further corrective actions are believed unnecessary

2. Some examples of corrective action(s) or implementation plans that are not clearly identifiable but, nonetheless, may be accepted by a technical reviewer are as follows:

    a. Submit monitoring report to the committee, when the monitoring report reveals nothing significant related to the firm's system of quality control and no engagements were identified that did not conform with professional standards in all material respects

b. Submit additional information regarding repeat findings

3. If results of corrective actions or implementation plans show there are significant unresolved issues, then the results of a firm's corrective actions or implementation plan should be presented for consideration by a RAB. Some examples of corrective action and implementation plan results that should not be accepted by the technical reviewer (and, accordingly, should be directed to a RAB) include the following:

   a. Reported engagement findings, deficiencies, or significant deficiencies identified in a team captain or review captain's revisit or review of a subsequent engagement

   b. Team captain's review of the firm's revised quality control policies and procedures when the team captain's report on his or her review indicates changes requested by a RAB have not been made

   c. When any other circumstance is noted where results of the corrective actions or review of the implementation plans suggest the possibility that additional corrective action or implementation plans are in the firm's best interests

Exhibit 2-1 — Confidentiality Letter if Technical Reviewer is Not an Employee of Administering Entity

[*Date*]

[*Name and Address of Technical Reviewer*]

Dear [*Mr. or Ms.*] [*Last Name of Technical Reviewer*]:

As a technical reviewer, you have a responsibility to meet all qualifications and an obligation to adhere to the confidentiality requirements described in the AICPA's *Standards for Performing and Reporting on Peer Reviews* (standards). Thus, you agree not to divulge information that would identify any firm, its clients or personnel, peer reviewer/reviewing firm or other information obtained as a result of your responsibilities. You agree not to discuss or disclose such information to anyone not involved in carrying out the review or administering the AICPA Peer Review Program (program) or use it in any way not related to meeting the objectives of the Program.

If you perform, or plan to perform, enforcement related work as a member, employee, consultant, volunteer (or other similar arrangement) of the AICPA or state CPA society ethics committee, AICPA Joint Trial Board, state board of accountancy or other regulatory agencies, governmental bodies, or similar groups or subgroups, you agree to notify the [*Administering Entity Peer Review Committee]* immediately. Such involvement would prohibit you from performing technical reviews.

Please confirm your acceptance of the responsibilities and obligations it entails by signing a copy of this letter in the space provided and returning it to me. If you have any questions, please feel free to call me.

Sincerely,

[*Name*]

[*Title*]

I understand that as a technical reviewer charged with the responsibility to assist a RAB in its report acceptance and oversight functions, I should:

- Demonstrate proficiency in the standards, interpretations, and guidance of the program by completing within the 12-month period preceding the commencement of the technical review 1 or more training courses that are applicable to the type of peer review being evaluated and that meet the requirements of the team captain or review captain training established by the board (Interpretation No. 132-1a).

- Demonstrate proficiency in the standards, interpretations, and guidance of the program by completing an introductory technical reviewer training course developed by the AICPA ordinarily within 12 months prior to serving as a technical reviewer. Additionally, I will complete or attend one of the following options in every calendar year thereafter:

    - a technical reviewer update training course developed by the AICPA

    - the annual Peer Review Conference

- Be an AICPA member in good standing, whether conducting technical reviewer duties for firms with or without AICPA members (Interpretation No. 132-1d).

- Participate in at least one peer review each year, which may include participation in an on-site oversight of a System Review (Interpretation No. 132-1b).

- Have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed.

- Inform the administering entity when performing or planning to perform enforcement related work as a member, employee, consultant, volunteer (or other similar arrangement) of:

    - The AICPA or state CPA society ethics committee

    - The AICPA Joint Trial Board

    - A state board of accountancy or other regulatory agencies, governmental bodies or similar groups or subgroups.

    Such involvement prohibits individuals from serving in this role.

- Adhere to the confidentiality requirements of the *Standards for Performing and Reporting on Peer Reviews*.

- Mitigate familiarity[fn5] threats that can exist among Committees/RABs, peer reviewers, and firms by following safeguards in accordance with *(Name of the administering entity)* policy and procedures.

I accept this appointment and the responsibilities and obligations, included but not limited to, those outlined above.

Signed: _____

Date: _____

Chapter 3

The Report Acceptance Process

I. Introduction

This chapter outlines the procedures that a committee or report acceptance body (RAB) would follow in the evaluation and acceptance of all reviews. Specific considerations concerning objectives of System and Engagement Reviews are covered in chapter 4 and chapter 5, respectively.

For purposes of this chapter, it is assumed that the committee has decided to delegate the report acceptance function to a RAB. If that is not the case, the references to RAB should be replaced with peer review committee. The process described, however, is unaffected.

II. Preparation for a RAB Meeting

A. Ordinarily, a majority of meeting materials should be provided in advance to the date of the meeting, in order to allow every RAB member adequate time to read the documents and be prepared to discuss the reviews being considered for acceptance. All reviews must be presented at a meeting. The meetings must be conducted in person or via conference call. The following documents should be included in the package:

1. Peer review report
2. Letter of response, if applicable
3. Prior review report; letter of response and Finding for Further Consideration (FFCs) forms, if applicable; firm representation letter and prior review's required corrective action(s) or implementation plans, if applicable

[fn5] See footnote 3.

4. Technical reviewer's checklist

5. Summary Review Memorandum—System Reviews

6. Disposition of Matter for Further Consideration (DMFC) form , as applicable

7. For reviews that include single audit engagement(s), the engagement profile and Section 22100 — Part A — UG, *Supplemental Checklist for Review of Single Audit Engagements*.* (See the following note.)

8. Review Captain Summary—Engagement Reviews

9. Matter for Further Consideration (MFC) forms, as applicable

10. Findings for Further Consideration (FFC) forms, as applicable

11. Firm's representation letter

12. Oversight report, as applicable

13. 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

13. Appendix A, "Explanation of No Answers," for PRPM section 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"—System Reviews

    **Note:* The report acceptance body may delegate the completion of attachment 1 of the System Review Technical Reviewer's Checklist for a single audit engagement(s) to a technical reviewer(s) if the technical reviewer has completed eight hours of continuing professional education (CPE) related to single audits in the last two years.

B. There may be circumstances in which a RAB member needs to contact the technical reviewer before the meeting to clarify an issue. Such discussions between the RAB member and technical reviewer should be disclosed during the meeting. When possible, the RAB member's question and the technical reviewer's response should be communicated or summarized by electronic mail; and the communication should be copied to all RAB members assigned to the review. It is important to remember to

    1. discuss or review the questions during the meeting because acceptance is a RAB decision, not the technical reviewer's decision and,

    2. discuss other questions among the other RAB members to help to bring out points that may otherwise be overlooked.

C. A minimum of three members should evaluate every peer review, its initial corrective action (if applicable), and implementation plan (if applicable) for acceptance. If a member or members of the RAB are excused from the discussions because of a lack of independence or conflicts of interest (see chapter 1, section VI), other committee members should be appointed to the RAB. As a result, the committee ordinarily should include a minimum of six members.

D. A consent agenda may, but is not required to be used for the meeting when reviews meet specific criteria. All criteria listed below must be met for a review to be placed on the consent agenda:

System reviews:

1. Peer reviews with a report rating of *pass*.
2. Peer reviews with no FFCs.
3. Peer reviews with no MFCs.
4. Peer reviews without reviewer performance feedback.

Engagement reviews (outside the scope of Interpretation No. 137-1):

1. Peer reviews with a report rating of *pass*.
2. Peer reviews with no FFCs.
3. Peer reviews without reviewer performance feedback.

When a review meets the criteria above, technical reviewers should still apply professional skepticism during the technical review. Reasons a review may not be placed on a consent agenda include, but are not limited to, the prior review resulted in a *pass with deficiency(ies*) or *fail* rating, firm performs multiple must-select engagements, reviewer has a pattern of poor performance, and so on.

All RAB members are expected to read the documents for reviews on the consent agenda being considered for acceptance. A consent agenda allows RAB members to vote on a group of reviews without discussion; however, any RAB member may extract a review from the consent agenda to discuss and vote on separately.

III. Review Acceptance Considerations

Based on its review and discussion of the peer review documents, the RAB should

A. consider whether the review has been performed in accordance with the standards, interpretations, and related guidance materials. For instance,

- did the team captain or review captain perform an adequate review?

- for System Reviews, did the team captain focus on the reviewed firm's system of quality control for the accounting and auditing practice and, as a result, avoid focusing on the engagements reviewed?

- for System Reviews, discuss whether the Summary Review Memorandum contained

  — an appropriate risk assessment that properly documents inherent and control risks related to the reviewed firm's accounting and auditing practice and its system of quality control

  — an appropriate selection of engagements in response to the risk assessment and designed to test a reasonable cross section of the firm's engagements with a focus on high risk engagements, in addition to significant risk areas

  — a discussion of excluded engagements, if any

  — a discussion of isolated matters, if any, with explanation of additional procedures performed to determine they were isolated

  — a discussion of consideration of a different type of report if a significant degree of judgment has been exercised in determining the review results

  — a discussion of nonconforming engagements, assessment of the firm's remediation of such engagements, and impact to the peer review, including scope expansion implications

- should the team captain or review captain be provided with feedback on his or her performance? See chapter 8 for further guidance.

B. consider whether the report and the response thereto, if applicable, are in accordance with the standards, interpretations, and related guidance materials. This includes, but may not be limited to the following:

- Was the appropriate type of report issued?

- For a report rating *pass with deficiencies* or *fail*:

  - Does the deficiency or significant deficiency description include

    - reference to the applicable requirement of Statements on Quality Control Standard—System Reviews?

    - the scenario that led to the deficiency or significant deficiency?

    - reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable?

- identification of the level of service?
- identification of the applicable industry if industry specific or if related to a nonconforming engagement in a must select industry or practice area?

- Does the firm's letter of response include
  - the firm's actions taken or planned to remediate nonconforming engagements, if applicable?
  - the firm's actions taken or planned to remediate deficiencies or significant deficiencies in the firm's system of quality control—System Reviews
  - the timing of the remediation?

C. decide appropriate, remedial corrective actions related to the deficiencies or significant deficiencies noted in the report, in addition to those described by the reviewed firm in its letter of response. Guidance for determining when and what type of corrective action(s) to require, given a set of circumstances, is contained in chapter 4 and chapter 5 for System and Engagement Reviews, respectively. Chapter 6 contains guidance for monitoring corrective action(s), determining when to require additional corrective actions when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required corrective action(s) or refuses to cooperate.

D. in relation to FFCs,

1. consider whether FFC (and associated MFC and DMFC) forms are prepared in accordance with these standards, interpretations, and related guidance materials, including whether the findings addressed on the FFC forms should have been included in a report with a peer review rating of *pass with deficiencies* or *fail*. For instance,

   - do the FFC (and associated MFC and DMFC) forms appear appropriate and complete?

   The peer reviewer may use his or her professional judgment in writing the description of the finding contained in the FFC form. As long as it is completed in its entirety, includes the essential elements, is written in an understandable manner and contains an appropriate response from the firm, the administering entity ordinarily would not request revisions to these forms. The FFC form should include

   - reference to the applicable requirement of Statements on Quality Control Standards—System Reviews?
   - the scenario that led to the finding?
   - reference to nonconforming engagements as a result of the finding, if applicable?

2. determine the adequacy of the reviewed firm's plan it represents has been or will be implemented in its response on the FFC form(s). For instance

    - is each finding appropriately addressed?

    - does the firm's response include

        - the firm's actions taken or planned to remediate nonconforming engagements, if applicable?

        - the firm's actions taken or planned to remediate findings in the firm's system of quality control—System Reviews

        - the timing of the remediation?

3. determine whether the RAB should require an action or implementation plan in addition to the plan described by the reviewed firm in its response to the findings on the FFC form(s).

    Guidance for determining when and what type of action or implementation plan to require, given a set of circumstances, is contained in chapter 4 and chapter 5 for System and Engagement Reviews, respectively. Chapter 6 contains guidance for monitoring implementation plan(s), determining when to require additional implementation plans when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required implementation plan or refuses to cooperate.

E. determine if the technical reviewer's recommendations are appropriate. Chapter 2 describes the nature and extent of the technical review.

F. report acceptance bodies (or the committee) should review the list of Engagement Reviews previously accepted by the technical reviewer and review any recommendations made by the technical reviewer for reviewer performance feedback.

IV. Additional Inquiries or Actions by the RAB

In reaching its conclusions on the preceding items, the RAB is authorized to make whatever inquiries or initiate whatever actions of the reviewed firm or the review team it considers necessary in the circumstances, including but not limited to, requesting expansion of scope, revisions to the report or the reviewed firm's response thereto, or corrections or clarifications to other review documents. This RAB authority exists at all times even if these inquiries were not made or actions were not requested during already completed on-site oversight or other stages of the review. However, such inquiries or actions by the RAB should be made with the understanding that the program is intended to be positive and remedial in nature and is based on mutual trust and cooperation.

In some circumstances, the RAB may consider requesting all review documentation from the team captain or review captain not previously provided, including engagement checklists, quality control ques-

tionnaires and related practice aids, staff interview or focus group checklists, and any other relevant documents.

V. Criteria for Delayed Acceptance or Deferral

Reviews where the RAB requires revisions to the peer review documents or there are unresolved questions are NOT deemed accepted. RABs should be aware that a review may not be "accepted subject to" revised documents. The concept of "acceptance" implies that the peer review documents are in accordance with standards, all questions are resolved, and the peer review results may be submitted for public dissemination. If revisions are necessary to the documents, or there are unresolved questions, the review is not considered accepted while revisions or questions are still outstanding.

A. Delayed Acceptance

If upon its consideration of the review documents the RAB determines revisions are necessary, the RAB may send an appropriately tailored "delayed acceptance" letter. This correspondence, copied to all affected parties, advises that the RAB has considered the review and requests that the applicable parties revise the identified document(s) or answer questions to the satisfaction of the RAB before the documents can be accepted. It advises the firm that once the RAB is satisfied, the RAB will submit an acceptance letter that may outline certain additional corrective or monitoring actions which the firm will be required to agree to in writing prior to the review being accepted.

Upon receipt of suitably revised documents or answers to the RAB's satisfaction, the firm will then be sent a letter indicating that the review has been accepted and completed or, if applicable, accepted after the reviewed firm agrees to take corrective action as a condition of the review's completion. The date the RAB accepted the review will be the date revisions or questions are cleared by the technical reviewer or RAB member.

B. Deferral of a Review

If the review is presented to the RAB and the unresolved questions are significant enough that no decision can be made by the RAB until further information is received from the reviewer or reviewed firm, a "deferral letter" should be sent. The deferral letter advises the applicable party(ies) that the RAB has considered the review and decided to defer the acceptance of the report because of the unresolved questions related to the review. It advises the parties that once the questions have been resolved, the review will be sent back to the RAB for further consideration.

C. Guidelines for Requesting Revised Documents

The following are guidelines RABs should consider in determining whether to request revisions to peer review documents.

1. Peer Review Reports and Letters of Response

Revisions should be requested

- for significant departures from the standard report formats.

- for failure to indicate that a deficiency or significant deficiency is a repeat comment noted on a prior peer review.
- to correct misleading grammar or excessively ambiguous language.
- to correct misquoted professional literature or references to professional standards, or both, unrelated to the subject matter.
- where an incorrect type of report has been issued or the report omits deficiencies or significant deficiencies.
- where the firm's letter of response does not appropriately address deficiencies or significant deficiencies and nonconforming engagements, including responses that are unacceptably noncommittal, vague, or otherwise unclear or not responsive.
- to revise deficiencies or significant deficiencies that appear to set standards higher than those mandated by professional standards.
- for System Reviews, to revise deficiencies or significant deficiencies that are not written systemically, or the systemic causes are not clear.
- for failure to identify the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific or related to a nonconforming must select engagement.

2. FFC Forms

   Revisions should be requested for

   - forms not completed properly or fully (that is, reference to professional standards not provided, individual MFCs not identified, type of matter, repeat finding, and so on).
   - the reviewer's description of the finding is not clear and, on System Reviews, does not include the systemic cause of the finding.
   - the reviewed firm's response does not appear comprehensive, genuine, and feasible or does not include all of the required elements.
   - forms not signed by an authorized representative of the reviewed firm.

3. MFC Forms

   Revisions should be requested for

- forms not completed properly or fully (that is, inappropriate firm or client references in descriptions, incomplete hard copies, different information provided on signed hard copies and electronic copies, and so on).

- the firm did not appropriately assess systemic cause of the matter or provided a limited response of "oversight" or "isolated" instead of providing sufficient detail to understand how they arrived at that conclusion.

4. Reviewer Feedback Forms

   Reviewer performance feedback forms should be issued in lieu of requesting revised documents for the following:

   - System Review report deficiencies or significant deficiencies contain a reference to the specific number of engagements where the matters were noted rather than using general terms such as *few* or *some*.

   - Multiple deficiencies or significant deficiencies comments could have been combined.

   - Deficiencies or significant deficiencies where the reviewed firm understands the substance and responds appropriately, but where the deficiency, significant deficiency, or comment is not written clearly.

   Refer to the section on reviewers' performance in chapter 8 for more information on the use of reviewer performance feedback forms.

VI. Reference Materials for RAB Meetings

The staff should make sure that the most recent peer review program materials are on hand for reference if needed. These include the following:

- *AICPA Peer Review Program RAB Handbook* (Section 3300 of the *AICPA Peer Review Program Manual*)

- *Peer Review Alerts* and other guidance issued by the board

- *AICPA Peer Review Program Administrative Manual*

- *AICPA Peer Review Program Manual*

- *AICPA Peer Review Program Oversight Handbook*

VII. Considerations for the Recall of Peer Review Documents

Overview

Peer reviewers or reviewing firms (reviewer) and reviewed firms (firm) are responsible for complying with the standards and guidance issued by the AICPA Peer Review Board (board) throughout the entire peer review process. This includes when a firm's most recent peer review was accepted under the auspices of a peer review program that was administered by an entity approved by the board and fully involved in the administration of the program.

This includes communicating with all appropriate parties involved in the program regarding information that could affect the performance or results of the peer review. Fulfilling all reviewer and firm responsibilities is required as a matter of cooperation with the administering entity, peer review committee (committee), the board, and AICPA staff (staff). After the date of acceptance by the committee, the administering entity (including the administrator, committee, and technical reviewer) or reviewer generally have no obligation or expectation to make any further inquiry or perform any other peer review procedures with respect to the peer review report, acceptance letter, or letter of response, if applicable (referred to hereafter in this section as *peer review documents*), unless information that may affect an accepted peer review comes to the parties 'attention.

This section describes actions that should [fn6] be considered by the reviewer, committee, or staff member who, subsequent to the date of peer review acceptance, becomes aware of facts that existed as of the date of the peer review report or acceptance that might have affected the performance or acceptance of the peer review had such information been known. Instances for recall consideration include, but are not limited to, situations in which there were errors or omissions or when the reviewer was not qualified or eligible to perform the peer review.

Note: When peer review documents are being considered for recall, staff should be notified and consulted early in the process. For discoveries of information not covered by this guidance or that do not originate from staff, staff should be notified before proceeding with any recall considerations. During recall considerations all parties involved in the peer review process should continue to adhere to the confidentiality guidelines in paragraph .20 of the standards.

Generally, recall considerations should not be made for fee disputes, disagreements that occur after acceptance by the report acceptance body, or other situations that did not have a direct impact on the underlying peer review period, procedures performed, or peer review documents. Additionally, the reviewer, firm, or committee should not consider recalling peer review documents if a subsequent peer review

[fn 6] This section uses the term should to indicate a presumptively mandatory requirement in all cases in which such a requirement is relevant. However, in rare circumstances, the reviewer, firm, or committee may depart from a presumptively mandatory requirement, provided there is consultation with and concurrence by staff and the parties document the justification for the departure and how the alternative decisions or actions in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. Use of the term must in this section indicates an unconditional requirement in all cases in which such a requirement is relevant.

report has been accepted, for situations outside of the scope of peer review, or situations not addressed within the standards of the program.

Before making any recall decisions, the facts of the situation must be confirmed. The recall considerations should be documented and retained until the firm's subsequent peer review has been completed.

Potential Reasons for Recall of Peer Review Documents

Recalling previously accepted peer review documents should be considered in instances including, but not limited to, the following situations.

Errors or Omissions

Errors or omissions that may have caused a significant change in the planning, performance, evaluation of results, peer review documents, or acceptance of the review are as follows:

- Material Departures Directly Affecting the Peer Review Report: *(See section A)*
  - The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known to the administering entity or reviewer.
  - The firm performed an engagement in a must-select category during the period covered by the peer review, and the reviewer did not consider or select a comparable must-select engagement during the system review.
- Other Departures That May Change the Peer Review Report: *(See section B)*
  - The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed a particular level of service required to be selected in an engagement review, and the reviewer did not consider or select a comparable engagement during the engagement review. For instance, compilations with disclosures were included in the engagement review, but compilations without disclosures performed by the firm were not considered in the engagement review.
  - The firm omitted or misrepresented information relating to its accounting and auditing practice, other than instances covered in section A.
  - The firm failed 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 or limitations or restrictions on the firm's ability to practice public accounting related to the firm or its personnel within the three years preceding the firm's current peer review year-end and through the date of the exit conference.

— The firm provided erroneous information in response to inquiries from the administering entity, staff, or reviewer in relation to the peer review.

Reviewer Disqualifications: (See section C)

- The reviewer or reviewing firm was not qualified (was ineligible) to perform or issue the peer review report because certain peer reviewer qualifications were not met at the time of the review, and this was not made known to staff or the administering entity during the scheduling, performance, or acceptance of the review.

- The reviewer or reviewing firm failed to inform staff or the administering entity about limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting. Considerations for recalling peer review documents should not be made if there are allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported by the reviewer or reviewing firm that are discovered subsequent to the acceptance of the peer review, but that have not resulted in limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting.

The preceding examples are not intended to be all-inclusive or indicate when peer review documents should be recalled. The reviewer needs to be aware that reviewer noncompliance could affect his or her ability to perform future reviews, and the firm needs to be aware that firm noncompliance could affect its ability to meet AICPA membership requirements, if applicable, as well as licensing and other regulatory requirements.

General Guidance

When the reviewer or administering entity becomes aware of information that relates to previously accepted peer review documents but was not known to the reviewer, firm, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. The reviewer and committee should consider whether the information may have caused a significant change in the peer review.

After the confirmation of evidence supporting the facts and considerations discussed in the following guidance, if the reviewer determines that the peer review report should be recalled, then both the peer review report and acceptance letter should be recalled.

Material Departures

The board considers errors or omissions that result in a change in the peer review report for the type of peer review, period covered, or must-select categories to be material departures from the AICPA *Standards for Performing and Reporting on Peer Reviews.* Such a departure results in a peer review that is not properly performed or reported on in conformity with the standards in all material respects. Generally, the reviewer should recall the peer review report if the previously accepted peer review report was not properly performed or reported on in all material respects. If such a report was accepted more than three years and six months prior to discovery of the information or a more recent peer review has been accept-

ed, then recall considerations are ordinarily not necessary. When the peer review was not performed or reported on in conformity with the standards in all material respects, there is no need for deliberation by the committee about the recall of the acceptance letter, and the guidance in section A should be followed.

Other Departures

For instances covered in section B, if a reviewer decides not to recall a peer review report, the committee should independently consider whether or not to recall acceptance of the peer review report. The committee's reconsideration of peer review acceptance should take into account the reviewer's considerations, but is not fully dependent on the reviewer's recall of the peer review report. The committee's decision to recall an acceptance letter invalidates the related peer review report and letter of response, if applicable, because it creates a situation in which the firm's peer review documents are no longer accepted by the administering entity.

Replacement Review

A replacement review is required when a previous review is recalled. As subsequently discussed, considerations for the replacement review depend upon the commencement date of the recalled review. The timing of the discovery should also be considered because of the peer review working paper retention period, which is 120 days after the peer review is completed. Considerations for the replacement review further discussed in this guidance include revising the peer review report (only if within 120 days of peer review completion), full re-performance of the peer review of the same period, or performance of a peer review of a subsequent period.

Recalls of peer reviews that commenced prior to April 1, 2014—

When the decision is made to recall peer review documents, the administering entity should notify the firm about the need for a replacement review. The due date by which the working papers should be submitted to the administering entity is approximately 90 days after the date of notification that a replacement review is required.

Recalls of peer reviews that commenced on or after April 1, 2014—

In accordance with the noncooperation guidance (Interpretation No. 5h-1), if a firm omits or misrepresents information relating to its accounting and auditing practice the firm will be subject to a hearing panel to consider whether the firm's enrollment in the program should be terminated. If the omission or misrepresentation results in a material departure the acceptance letter must be recalled. If the hearing panel determines that the firm's enrollment in the program should 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. The hearing panel may also indicate other specific criteria for the replacement review.

Voluntary Correction Program

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 misrepre-

sentation and prior to the firm receiving notification from another regulatory or monitoring agency. The peer review acceptance letter 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.

A. Considerations Related to Material Departures Directly Affecting the Peer Review Report

1. *Confirmation of Facts and Evidence*

   Awareness of errors or omissions that result in material changes in the peer review report could come from various sources, such as the administering entity, publicly available information, reviewers, staff, or other substantiated and reliable sources. When the reviewer, administering entity, or staff become aware of information that relates to previously accepted peer review documents but may not have been known to the reviewer, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. Any parties presenting such information to the administering entity must undertake measures to determine whether the information is reliable and whether the facts existed during the period covered by the peer review or as of the date of the peer review report and provide verifiable evidence to support the facts.

2. *Communication With the Administering Entity*

   Once the information and evidence is confirmed as factual and reliable, the administering entity should promptly communicate the discovery and resolutions to the firm and reviewer. The administering entity should document the situation in the Notification of Discovery and Resolution Letter from the administering entity, addressed to the firm, and copied to the reviewer and staff. The administering entity should include evidence supporting the discovery, indication that the acceptance letter will be recalled, and requirement for a replacement review, including the due date in the Notification of Discovery and Resolution Letter. The administering entity should obtain confirmation of receipt indicating that both the firm and reviewer received the Notification of Discovery and Resolution Letter.

3. *Reviewer Considerations of Relevance and Impact*

   By copy of the Notification of Discovery and Resolution Letter, the reviewer should (presumptively mandatory) recall the previously accepted peer review report. The reviewer should respond in writing to the firm and the administering entity about his or her decision to recall the peer review report. Errors or omissions that directly result in a change in the peer review report for the type of peer review, period covered, or must-select categories are considered to be material departures from the standards of the program for which the reviewer should recall the peer review report. Unless the reviewer recalls the peer review report, the reviewer will not be allowed to revise the peer review report or perform the firm's replacement review.

4. *Recall of Peer Review Documents and Resolutions*

The administering entity must recall its acceptance letter when notified by staff that the peer review report is not correct in all material respects. The peer review information and peer review documents must be removed from view on Facilitated State Board Access (FSBA), and the administering entity must notify the applicable state board(s) of accountancy of information allowed by the guidance.

If a replacement review is required, the documents should be submitted to the administering entity for technical review and committee acceptance considerations by the due date prescribed.

5. *Recall and Resolutions If Discovery Is Within 120 Days of Peer Review Completion*

Recalls of peer reviews that commenced prior to April 1, 2014—

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the discovery and communication to the administering entity (prompting the Notification of Discovery and Resolution Letter) occurs within 120 days of the peer review completion date, there is an option to have the original reviewer recall the peer review report and perform additional procedures for the purpose of issuing a revised report. Upon receipt of this notification, the reviewer should continue to retain the working papers for the recalled review until completion of the revised or replacement review. The original reviewer should be willing, qualified, and able to submit the revised peer review report and working papers to the administering entity for acceptance by the established due date, which is approximately 90 days after the date of the Notification of Discovery and Resolution Letter. Alternatively, the firm, in consultation with the administering entity, may have a replacement review of the same period or a subsequent period. (See section A.6.)

If the original reviewer chooses to recall the previous report and reissue a revised report, the revised report should be dated as of the date that the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date). There should not be a reference in the revised peer review report to the previously issued and recalled report.

In addition to submitting the revised peer review report to the administering entity, the reviewer should also submit any pertinent additional peer review documentation, including at a minimum, a revised Summary Review Memorandum or a memo detailing the situation, reviewer's additional considerations, conclusions, and changes to engagement data statistics. The revised Summary Review Memorandum or memo should address the omission or error in detail and fully explain the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recommendations, or report rating. The reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further Consideration (MFC) form. Further evaluation of the systemic cause

could lead to a Finding for Further Consideration (FFC) form or deficiency in the report. The reviewer should submit peer review documentation that was significantly changed as a result of additional procedures that would ordinarily be submitted to the administering entity for acceptance in accordance with the guidance. In addition, the reviewer should also request the representation letter from the firm, specifically addressing the circumstances about information previously omitted or provided in error.

The revised peer review documents and working papers should be subjected to technical review prior to presentation to the report acceptance body (RAB). Such information should be considered in conjunction with the previously submitted and retained peer review documents and working papers that were not revised as well as the previous technical reviewer's checklist.

If the subsequently discovered information would have changed the type of peer review from an engagement review to a system review, then the reviewer does not have the option to revise and reissue the peer review report. Such situation would necessitate a completely new replacement review of the same period or a subsequent period. If feasible, the reviewer may consider procedures performed during the recalled review to assist with the performance of the new system review.

Recalls of peer reviews that commenced on or after April 1, 2014—

If a firm omits or misrepresents information relating to its accounting and auditing practice resulting in a material departure in the firm's most recently accepted peer review, the peer review acceptance letter 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. The aforementioned guidance for recalls of peer reviews that commenced prior to April 1, 2014 in this section should be considered for the revised or replacement review. The hearing panel may also make additional considerations and set other criteria related to a reissued or replacement peer review.

6. *Recall and Resolutions If Discovery Is More Than 120 Days After Peer Review Completion*

For recalled peer reviews that commenced prior to April 1, 2014—

If the Notification of Discovery and Resolution Letter is sent more than 120 days after the completion of the peer review, the firm should have a replacement review performed by a qualified reviewer. The reviewer should perform the review in accordance with guidance and submit the working papers to the administering entity by the established due date, which is approximately 90 days after the date of the Notification of Discovery and Resolution Letter.

The firm and approved reviewer should decide whether the replacement review should cover the same period or a subsequent period to include the previously omitted engagement(s). The firm and approved reviewer should consider such factors as the significance and risk(s) related to the omitted information or engagement(s) or subsequently completed engagement(s), time elapsed, and the established due date of the firm's replacement review. For replacement reviews, the reviewer and firm should determine the year end based on the subsequent examples. The reviewer or firm should consult with the administering entity to determine the peer review period that should be covered.

While performing the replacement review, the reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a MFC form. Further evaluation of the systemic cause could lead to a FFC or deficiency in the report. Regardless of the period covered by the replacement review, the firm and reviewer are expected to abide by the due date established by the administering entity. The firm and reviewer should consider the following examples in determining the period to be covered by the replacement review:

Example 1. Firm no longer performs similar engagements (Discovery within 12 months of review year-end - replacement review of same period)

A firm failed to inform the administering entity or reviewer that it performed a particular level of service requiring a system review (for example, engagement year end June 30, 2012) for the period under review (for example, January 1, 2012 to December 31, 2012), and the firm no longer performs that level of service after the period covered by the recalled review. If 12 months or less have elapsed between the period covered by the recalled review and the Notification of Discovery and Resolution Letter (for example, discovery communicated prior to December 31, 2013), ordinarily, another peer review of the original period (January 1, 2012 to December 31, 2012) should be performed to include the level of service that caused the replacement review. If reviewing a subsequent 12-month period would not include the level of service or engagement(s) in question, then a replacement review of a subsequent period may not be appropriate.

Example 2. Firm no longer performs similar engagements (Discovery more than 12 months after recalled review year-end - replacement review of subsequent period)

A firm failed to inform the administering entity or reviewer that it performed a must-select engagement(s) (for example, engagement year end June 30, 2012) for the period under review (for example, January 1, 2012 to December 31, 2012), and the firm no longer performs engagements in the same must-select category after the period covered by the recalled review. If more than 12 months have elapsed between the period covered by the recalled review and the Notification of Discovery and Resolution Letter (for example, discovery communicated after December 31, 2013), ordinarily the reviewer should perform a replacement review of a subsequent period but include the previously omitted engagement(s) within scope. The greater the number of prior year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engage-

ments were previously omitted, this may prompt re-performance of the peer review of the original period.

Example 3. Firm continues to perform similar engagements

A firm failed to inform the administering entity or reviewer that a particular level of service requiring a system review was performed or neglected to disclose that it performed a must-select engagement (for example, engagement year end June 30, 2012) for the period under review (for example, January 1, 2012 to December 31, 2012), and the firm has or will continue to perform similar engagements. The replacement review should include the most recently completed engagement similar to those previously omitted and the period covered should be determined by the firm and the reviewer. The period covered should consider the time elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution Letter.

In all the preceding examples, the firm's next peer review will have a due date of three years and six months from the year end of the replacement review.

Recalls of peer reviews that commenced on or after April 1, 2014—

If a firm omits or misrepresents information relating to its accounting and auditing practice resulting in a material departure in the firm's most recently accepted peer review, the peer review acceptance letter 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. The aforementioned guidance for recalls of peer reviews that commenced prior to April 1, 2014 in this section should be considered for the replacement review. The hearing panel may also make additional considerations and set other criteria related to the replacement peer review.

7. *Firm Responsibilities*

The firm has the responsibility to notify all parties that might be relying on the peer review documents to discontinue reliance when it is determined that those documents do not comply with standards in all material respects and the peer review documents are recalled. This includes, but is not limited to notification to the state board(s) of accountancy (regardless of agreeing to the waiver), current or potential clients, regulators, enforcement agencies, insurance carriers, or government agencies, if applicable. The firm is also responsible for the removal of the documents from publicly available sources, such as the firm's website. The firm needs to be aware that firm noncompliance with peer review requirements could affect its ability to meet AICPA membership requirements, if applicable, as well as licensing and other regulatory requirements.

It is ultimately the firm's responsibility to have the peer review submitted by the firm's due date. Therefore, the firm is responsible for hiring a reviewer who understands the importance of the issue and timing for the replacement review.

8. *Notification to State Boards of Accountancy*

   In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, the administering entity should immediately notify the applicable state board(s) of accountancy of changes to information and documents that were previously made available and to contact the firm for further information. Regardless of whether the firm has opted out from peer review document access, the administering entity should inform the applicable state board(s) of the date of acceptance and the period covered by the firm's most recently accepted review (which is generally the peer review prior to recall) and other information allowed by standards paragraph .146. In addition, a similar communication should be sent when the replacement review is accepted.

9. Additional Considerations by AICPA Staff

   In instances where there has been noncompliance with standards or noncooperation on the part of the firm, additional actions that may be considered by the staff include referral to a hearing panel of the board for termination from the AICPA Peer Review Program. As to AICPA members, the fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe. A firm's termination from the program could result in the termination of AICPA membership for all individuals within the firm, if applicable. For recalled reviews that commenced on or after April 1, 2014 for which the firm's enrollment is terminated due to the firm omitting or misrepresenting information related to the firm's accounting and auditing practice, the matter will result in referral to the AICPA Professional Ethics Division for firms with AICPA members for investigation of a possible violation of the AICPA Code of Professional Conduct.

B. Considerations Related to Other Departures That May Change the Peer Review Report

1. *Confirmation of Facts by the Reviewer*

   Awareness of errors or omissions could come from various sources, such as the administering entity, publicly available information, reviewers, staff, or substantiated and reliable sources. If a party other than staff discovers the information, the situation should be immediately communicated to the reviewer. If the information is of such a nature and from such a source that the reviewer would have considered it during the course of the peer review, the reviewer should, as soon as practicable, undertake measures to determine whether the information is reliable and whether the facts existed during the period covered by the peer review report or as of the date of the peer review report. The reviewer should discuss the situation with the firm and request cooperation in whatever efforts may be necessary to obtain evidence, and determine the relevance and impact on the peer review and related report.

2. *Communication With the Administering Entity*

   If the firm refuses to cooperate with the reviewer in efforts to confirm the facts with regard to relevance to or impact on the peer review, the reviewer should immediately consult with the appropriate administering entity because a failure to cooperate may subject a firm to fair procedures that could result in termination of the firm's enrollment in the AICPA Peer Review Program (program).

   If the subsequently discovered information is found both to be reliable and to have existed as of the date of the peer review report, the reviewer should immediately notify the firm's administering entity of the situation, provide the evidence, and indicate whether the reviewer reasonably believes that the omission or error may have caused a significant shift in focus in the peer review performance, change in evaluation of results, or change in the peer review documents. Communication from the reviewer should be made in writing and addressed to the peer review committee of the administering entity regardless of whether the administering entity was the source of the information. The situation should be documented in the Notification of Discovery Letter issued by the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff. Evidence supporting the discovery should be included in the Notification of Discovery Letter. The administering entity should obtain confirmation of receipt indicating that both the firm and reviewer received the Notification of Discovery Letter. The Notification of Discovery Letter informs the firm, reviewer, and administering entity to retain all relevant peer review working papers until the matter is fully resolved or in accordance with the peer review working paper retention period, whichever is later.

3. *Reviewer and Committee Considerations of Relevance and Impact*

   The reviewer and committee should carefully and independently consider the potential impact of the information on the results of the peer review. However, depending on the circumstances, the reviewer should take the lead in the early considerations of relevance and impact due to the reviewer's familiarity with the situation. The reviewer and committee should take action in accordance with the procedures set out in subsequent paragraphs if the nature and effect of the matter are such that the reviewer and committee believe (*a*) the peer review procedures, report, or both would have been affected if the information had been known to the reviewer as of the date of the report and (*b*) persons who may attach importance to the omission or error are currently relying, or are likely to rely, on the peer review report.

   Some examples that the reviewer and committee might consider when evaluating whether it is necessary to recall the peer review documents are as follows:

   a. If the reviewer can sufficiently conclude that the subsequently discovered information would not have changed the risk assessment or engagement selection, then the reviewer and committee may determine that the peer review report may remain as originally accepted. For instance, it is discovered that an investigation

was for a particular partner's engagement. If the discovery is communicated within the peer review working paper retention period, the reviewer and committee may determine that the recall of peer review documents is not necessary if a similar engagement from that partner was included in the peer review selection. If outside the retention period, the reviewer may consider it appropriate to review a representative engagement or other considerations before reaching a conclusion about whether to recall the peer review report.

b. If the firm had an engagement review performed but neglected to notify the reviewer that the firm performed a level of service for which an engagement was required to be selected, the reviewer should consider the risk related to omitted level of service. For instance, the firm neglected to inform the reviewer that it performed review engagements, and only a compilation and a compilation that omitted substantially all disclosures engagements were selected during the peer review. Engagement data statistics retained by the administering entity may assist in the determination of level of services previously reviewed if discovery is beyond the peer review working paper retention period. The reviewer may consider it appropriate to review an engagement from the previously omitted level of service before reaching a conclusion about whether to recall the peer review report. The reviewer may determine that the peer review report should not be recalled if there are no deficiencies related to the omitted level of service.

The reviewer and firm should consult with the administering entity to determine implications and possible resolutions. The reviewer should inform the administering entity of his or her decision prior to informing the firm of a decision to recall the peer review report. If, after careful consideration, the reviewer determines that the omission or error would have caused a significant change in the planning, performance, evaluation of results, or peer review documents, the reviewer may decide to recall the peer review report. The reviewer's considerations and final determinations should be communicated to the administering entity and firm promptly and in writing, but no later than 30 days from the date of the Notification of Discovery letter, regardless of a final decision to uphold or recall the previously issued peer review report. A reviewer's failure to respond promptly within the indicated time period could be considered a matter of noncooperation.

4. *Recall of Peer Review Documents*

If the reviewer decides to recall the peer review report, the committee of the administering entity must recall its related acceptance letter because such acceptance is not effective without the underlying report. The firm has the ability to disagree with the reviewer and the committee's decision and should follow the procedures in chapter 7, "Consultations and Disagreements," of the *Report Acceptance Body Handbook* and express its disagreement in writing to the committee of the administering entity.

The decision to recall the peer review documents and confirmation of the firm's plan to resolve the matter and fulfill its peer review requirement should be discussed, documented, and communicated in the Notification of Acceptance Recall Letter from the adminis-

tering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff as soon as practicable. The due dates and guidelines for the proposed resolution procedures should be included in the communication from the administering entity. Generally, when the reviewer recalls the peer review report, a replacement peer review should be performed and documents submitted to the administering entity for technical review and committee acceptance considerations within 90 days of the date of the Notification of Acceptance Recall Letter. The agreement should also include acknowledgment of the firm's responsibility to communicate the recall to the state board of accountancy and any other parties relying on previously accepted peer review documents, including, but not limited to, regulators, enforcement agencies, or government agencies. The appropriate representative of the firm must sign the Notification of Acceptance Recall letter and return it to the administering entity evidencing the firm's agreement to the terms. If the firm does not sign and return the agreement within 30 days of the date of the Notification of Acceptance Recall Letter, this will be considered noncooperation and will not delay the recall of the peer review documents, unless the firm has provided notification of a disagreement in accordance with chapter 7 of the *Report Acceptance Body Handbook*.

5. *Recall and Resolutions If Discovery Is Within 120 Days of Peer Review Completion*

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the discovery and communication to the administering entity (prompting the Notification of Discovery Letter) occurs within 120 days of the peer review completion date, there is an option to have the original reviewer recall the peer review report and perform additional procedures for the purpose of issuing a revised report. The original reviewer should be willing, qualified, and able to submit the revised report and working papers to the administering entity for acceptance by the established due date, which is generally within 90 days of the date of the Notification of Acceptance Recall Letter. Alternatively, the firm, in consultation with the administering entity, may have a replacement review of the same period or a subsequent period.

If the original reviewer decides to recall the previous report and reissue a revised report, the revised report should be dated as of the date the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date). There should not be a reference in the revised peer review report to the previously issued and recalled report.

In addition to submitting the revised peer review report to the administering entity, the reviewer should also submit any pertinent additional peer review documentation, including at a minimum, a revised Summary Review Memorandum (system reviews) or a memo detailing the situation, reviewer's additional considerations, conclusions, and changes to engagement data statistics. The revised Summary Review Memorandum (system reviews) or memo should address the omission or error in detail and fully explain the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recom-

mendations, or report rating. The reviewer should submit peer review documentation that was significantly changed as a result of additional procedures that would ordinarily be submitted to the administering entity for acceptance in accordance with the guidance. The reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a MFC form. Further evaluation of the systemic cause could lead to a FFC or deficiency in the report. In addition, the reviewer should also request a representation letter from the firm specifically addressing the circumstances previously omitted or provided in error.

The revised peer review documents and working papers should be subjected to technical review prior to presentation to the RAB. Such information should be considered in conjunction with the previously submitted and retained peer review documents and working papers that were not revised as well as the previous technical reviewer's checklist.

6. *Recall and Resolutions If Discovery Is More Than 120 Days After Peer Review Completion*

   The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the Notification of Discovery Letter is sent more than 120 days after the completion of the peer review, the firm should have a replacement review performed by a qualified reviewer. The reviewer should perform the review in accordance with guidance and submit the working papers to the administering entity by the established due date, which is generally within 90 days of the date of the Notification of Acceptance Recall letter.

   The firm and approved reviewer should decide whether the replacement review should cover the same period or a subsequent period to address concerns about the previously omitted engagement(s) or information. The firm and approved reviewer should consider such factors as the significance and risk(s) related to the omitted information or engagement(s) or subsequently completed engagement(s), time elapsed, and the established due date of the firm's replacement review. . The administering entity may also be consulted to determine the peer review period that should be covered.

   If the replacement review is a system review, the reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a MFC form. Further evaluation of the systemic cause could lead to a FFC or deficiency in the report.

   Regardless of the period covered by the replacement review, the firm and reviewer are expected to abide by the due date established by the administering entity, which should be 90 days from the date of the Notification of Acceptance Recall Letter. Therefore the peer review period covered should be reflective of engagements that the firm reasonably expects to complete before the firm's due date. The firm's next peer review will have a due date of three years and six months from the year end of the replacement review.

7. *Reviewer Decides Not to Voluntarily Recall Peer Review Report*

If, after careful consideration, the reviewer decides not to recall the peer review report, the reviewer should summarize his or her basis for conclusion and promptly communicate the results to the committee and firm, but no later than 30 days from the date of the Notification of Discovery Letter. If the committee agrees with the reviewer's determination, the administering entity should send the firm a Notification of Discovery Closure Letter to the firm (copied to reviewer and staff), notifying the firm that the matter is considered closed and no further action will be taken regarding the previously accepted peer review documents.

If the committee has substantial reason to question the reviewer's decision not to recall the report, then the committee may undertake further measures. The committee (or individual designated by the committee) should consult with staff, evaluate the circumstances, and determine whether the peer review acceptance letter should be recalled notwithstanding the reviewer's decision. If the committee decides to recall the acceptance letter confirmation of the firm's plan to have the report reissued or to have another review performed, it should be documented in a Notification of Acceptance Recall letter from the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff.

The committee should consider the following scenarios depending on the timing of the discovery of the omission or error:

a. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Discovery Within 120 Days of Peer Review Completion

If the committee has substantial reason to believe that the reviewer's decision not to recall the previously accepted peer review report may be inappropriate, the committee should consider notifying the firm, consult with staff, and determine the most appropriate action. The committee may decide that (onsite or offsite) additional procedures should be performed by an individual acceptable to the committee to determine if the decision not to recall the report is appropriate. This could include partial or full working paper additional procedures covering all related documents underlying the peer review. Although the peer review would have already been performed, the additional procedures can still be performed afterwards with the cooperation of the firm and reviewer in either providing or forwarding requested items to the person(s) performing the additional procedures. The additional procedures should be performed as soon as reasonably practical but should commence not later than 30 days following the reviewer's communication of a decision not to recall the peer review report.

The individual performing additional procedures should approach the review with a higher degree of skepticism with regard to the error or omissions and determine whether he or she was able to overcome concerns about the omissions or error. The individual performing additional procedures should fully report on these procedures to the committee.

i. If the results of the additional procedures are consistent with the documents previously accepted for the review, the committee should allow the peer review documents to remain as originally accepted.

ii. However, if the additional procedures results indicate that a substantially different peer review report (change in report rating, scope, or deficiencies identified) should have been issued as a result of the discovered error or omission, then the committee should consider recalling the previously accepted peer review documents. The administering entity should notify the reviewer of the results of the additional procedures and committee's conclusion. The committee (or individual designated by the committee) should also discuss the results with the firm. If the committee recalls the acceptance letter, the administering entity should communicate terms of the replacement review by a qualified reviewer following the guidance in section B.5.

b. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Discovery More Than 120 Days After Peer Review Completion

If the Notification of Discovery Letter is sent more than 120 days after completion of the peer review, and the reviewer decides not to recall the peer review report, then the committee should discuss the potential implications of the omission or error and should consult with staff. If, after careful consideration and its own assessment, the committee disagrees with the reviewer's conclusion not to recall the peer review report, the committee should independently consider recalling the peer review acceptance letter. The committee of the administering entity should thoroughly document its considerations and reasons for recalling the peer review documents and related acceptance in opposition to the reviewer's determination.

The administering entity should notify the reviewer of the committee's decision to recall acceptance and consult with the firm to determine if or when the firm should have another review performed. See section 6 for procedures for recalling peer review documents when discovery is more than 120 days after peer review completion.

8. *Firm Responsibilities*

The firm has the responsibility to notify all parties that might be relying on the peer review documents to discontinue reliance when it is determined that the peer review report or acceptance letter is recalled. This includes, but is not limited to notification to the state board(s) of accountancy, current or potential clients, regulators, enforcement agencies, insurance companies, or government agencies. The firm is also responsible for the removal of the documents from publicly available sources. The firm needs to be aware that firm noncompliance with peer review requirements could affect its ability to meet AICPA membership requirements, if applicable, as well as licensing and other regulatory requirements.

It is ultimately the firm's responsibility to have the peer review submitted by the firm's due date. Therefore, the firm is responsible for hiring a reviewer who understands the importance of the issue and timing for the replacement review.

9. *Notification to State Boards of Accountancy If Peer Review Documents Are Recalled*

   In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, the administering entity should promptly notify the applicable state board(s) of accountancy of changes to information and documents that were previously made available and to contact the firm for further information. Regardless of whether the firm has opted out from peer review document access, the administering entity should inform the applicable state board(s) of the date of acceptance and the period covered by the firm's most recently accepted review (which is generally the peer review prior to recall) and other information allowed by standards paragraph .146. If the reviewer and committee determine that the omission or error does not result in a material departure from standards and the documents should not be recalled, the administering entity should not notify the state board(s) of accountancy regarding the discovery of the error or omission.

10. *Additional Considerations by Peer Review Committee or AICPA Staff*

    In instances in which the committee believes that there has been noncompliance with standards or noncooperation on the part of the firm, additional actions that may be considered by the committee or staff include referral to a hearing panel of the board for termination from the program. As to AICPA members, the fact that a firm's enrollment in the program has been terminated, with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe. A firm's termination from the program could result in the termination of AICPA membership for all individuals within the firm, if applicable. Depending on the circumstances, if the firm's enrollment is terminated through such procedures, staff may make a referral to the AICPA's Professional Ethics Division for firms with AICPA members for investigation of a possible violation of the AICPA Code of Professional Conduct, if applicable.

C. Reviewer or Reviewing Firm Qualifications Not Met

1. *Notification of Reviewer Disqualification by AICPA Staff*

   Reviewers are responsible for complying with the guidance of the program throughout the entire peer review process. This includes communicating with appropriate parties regarding information that could affect the performance or results of the peer review. Fulfilling all reviewer responsibilities is required as a matter of cooperation with the administering entity, peer review committee (committee), the AICPA Peer Review Board (board), and AICPA staff (staff).

The standards (sec. 1000 par. .31–.34) and related interpretations discuss the minimum requirements an individual must meet and maintain in order to fulfill reviewer qualifications. If the reviewer does not meet one or more of the qualifications, the reviewer may be ineligible to schedule or perform reviews for all administering entities. In addition, 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 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.

At the time that a peer review is approved for scheduling, it is presumed through information available to the administering entity and AICPA staff and representations made by the reviewer (or evidence to the contrary) that the reviewer is qualified to perform the review and will continue to be qualified at commencement and throughout the performance of the peer review and issuance of the report. It is the reviewer's responsibility to notify the AICPA or administering entity of any changes in those qualifications. In addition, AICPA staff and administering entities should monitor certain peer reviewer qualifications.

When it comes to the attention of AICPA staff that a reviewer does not meet the qualifications to perform peer reviews, AICPA staff will notify the reviewer and the applicable administering entity in accordance with the procedures in chapter 8, "Reviewer Qualifications, Responsibilities, and Performance," of this handbook. AICPA staff will perform a preliminary analysis to determine the reviews accepted by a committee, which may have been performed when the reviewer was not qualified. Staff will notify the applicable administering entity in such cases. The committee of the applicable administering entity should evaluate to determine actions that should be taken with regard to reviews which were accepted when the reviewer was ineligible. This section provides guidance in situations in which it may be necessary for the reviewer or committee to consider recalling previously accepted peer review documents when it is subsequently discovered that the reviewer was not qualified or was not eligible to perform the peer review.

2. *Communication With the Administering Entity*

If it is determined that the reviewer failed to meet general peer reviewer qualifications or was limited or restricted in any way from practicing public accounting (or peer review) by a regulatory, monitoring, or enforcement body at the time that a peer review was performed and report issued and such report has been accepted by the committee, the reviewer and committee should consider which qualifications were not met and the impact that disqualification may have had on the performance by the reviewer or the reviewer's ability to issue a peer review report. If the committee determines that the matters that disqualified the reviewer affected the reviewer's performance or ability to issue a peer review report, the committee (or individual designated by the committee) should contact staff to discuss the impact of the disqualification on any peer reviews accepted during the subject time frame. Staff may consult with legal counsel.

The committee and staff should consider the composition and qualifications of the full peer review team, as applicable, and which segments of the peer review may have been

impacted by the disqualified reviewer. The committee (or individual designated by the committee) should consult with appropriate members of the review team, if applicable, and consider whether another suitably qualified reviewer on the review team performed or is able to perform sufficient procedures to overcome the concerns over the disqualified reviewer. If the concerns cannot be overcome with the procedures already performed by the review team, the situation should be documented in a Notification of Reviewer Disqualification letter from the administering entity on behalf of the committee, addressed to the reviewer, and copied to staff.

3. *Reviewer and Committee Considerations of Relevance and Impact*

   The reviewer and committee should carefully and independently consider the potential impact of the information on the results of any peer reviews performed when the reviewer was not eligible to perform peer reviews. The reviewer should consider whether to voluntarily recall peer review reports issued when the reviewer was not qualified and notify the administering entity and affected reviewed firms. The reviewer must inform the administering entity of his or her decision prior to informing the firm of a decision to recall the peer review report. The reviewer's considerations and final determinations about whether to recall a peer review report should be communicated to the administering entity and firm promptly, but no later than 30 days from the date of the Notification of Reviewer Disqualification letter, regardless of the final decision to uphold or recall the previously issued and accepted peer review report. A reviewer's failure to respond promptly within the indicated time period could be considered a matter of noncooperation.

4. *Recall of Peer Review Documents*

   If, after careful consideration, the reviewer determines that the reviewer disqualification would have caused a significant change in the planning, performance, evaluation of results, or peer review documents the reviewer may voluntarily decide to recall the peer review report. The reviewer must summarize his or her basis for conclusion and communicate the results to the committee and reviewed firm promptly, but no later than 30 days from the date of the Notification of Reviewer Disqualification letter. The basis for conclusion should be retained by the reviewer and administering entity in accordance with the peer review working paper retention period, which is 120 days after the peer review is completed. In the case of recall considerations, the peer review completion timeline would be triggered by notification of the committee's final resolution of the matter that prompted the recall considerations. If the reviewer decides to recall the peer review report, the committee of the administering entity must likewise rescind its related acceptance letter because such acceptance is not effective without the underlying report. The reviewer and administering entity should advise the reviewed firm to consider the firm's responsibilities to notify and recall those peer review documents from parties that might reasonably place a reliance on such documents, including notification of the recalled acceptance of the peer review documents to the state board of accountancy, or other regulatory, monitoring, or enforcement bodies.

If an acceptance letter of the peer review is recalled, the committee (or individual designated by the committee) should consult with the reviewed firm to determine if and when the firm should have a replacement review performed. A replacement review is another peer review that takes the place of a previous review for which peer review documents have been recalled. In determining whether to submit to another peer review, the reviewed firm and committee should consider AICPA or other voluntary membership organization requirements, licensure requirements of the state boards of accountancy, and other regulatory requirements that may be reliant upon a validly accepted peer review.

The determination to recall the acceptance of the peer review and confirmation of the firm's plan to have the report reissued or another review performed should be discussed, documented, and communicated in the Notification of Acceptance Recall letter from the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff. This communication should be made as soon as practicable. The due dates and guidelines for the proposed resolution procedures should be included in the communication from the administering entity. This agreement should also include acknowledgment of the reviewed firm's responsibility to communicate the recall to the state board of accountancy and any other parties relying on previously accepted peer review documents, including, but not limited to, other regulatory, monitoring, or enforcement bodies. Additionally, for states that have statutes allowing state boards of accountancy access to peer review documents, unless the firm has opted-out of the Facilitated State Board Access process, the administering entity may notify the state board of accountancy that access to documents previously made available has been removed and to contact the firm for further information. If the firm does not sign and return the agreement within 30 days of the date of the Notification of Acceptance Recall letter, this will be considered noncooperation and will not delay the recall of the peer review documents, unless the firm has provided notification of a disagreement in accordance with chapter 7 of the *Report Acceptance Body Handbook*.

5. *Reviewer Decides Not to Voluntarily Recall Peer Review Report*

If, after careful consideration, the reviewer determines that the reviewer's disqualification would not have caused a significant change in the planning, performance, evaluation of results, or peer review documents, then the reviewer must summarize his or her basis for conclusion and communicate the results to the committee promptly, but no later than 30 days from the date of the Notification of Reviewer Disqualification letter. The basis for conclusion should be retained by the reviewer and administering entity in accordance with the peer review working paper retention period, which is 120 days after the peer review is completed. In the case of recall considerations, the peer review completion timeline would be triggered by notification of the committee's final resolution of the matter that prompted the recall considerations. If the reviewer does not voluntarily decide to recall any affected peer review reports (or notify the administering entity of the decision within 30 days of the date of the Notification of Reviewer Disqualification letter), the committee (or individual designated by the committee) should consult with staff, evaluate the circumstances, and determine whether the peer review acceptance letter should be recalled notwithstanding the reviewer's decision. The committee (or individual designated by the committee) may discuss the situation with the reviewed firm. Discussions should

include the committee's inability to overcome the concerns about the impact of the reviewer's disqualification on the firm's peer review. Discussions should also include the possible ramifications for the existence of a peer review report issued by a disqualified reviewer and a suggestion that the reviewer and firm consult with their legal counsel. If the committee deems it appropriate (based on the following guidance), it should consider recall of the peer review acceptance letter, which would invalidate the underlying peer review report, because it creates a situation in which the firm's peer review documents are no longer accepted by the administering entity. The administering entity should thoroughly document any considerations and conclusions reached regarding communications and determinations reached for reviews affected by a reviewer's disqualification.

The following scenarios should be considered by the committee depending on the timing of the discovery of the reviewer's disqualification:

a. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Reviewer Disqualification Is Discovered Within 120 Days of Peer Review Completion

Prior to sending the reviewer the Notification of Reviewer Disqualification letter, the committee should determine the facts and evaluate whether concerns about the reviewer's disqualification can be overcome. If the discovery of the reviewer's disqualification occurs within the peer review working paper retention period (120 days after the completion of the peer review), the administering entity should inform the reviewer to retain any working papers for the specific peer review(s) until the matter is fully resolved or in accordance with the peer review working paper retention policy, whichever is later. If the committee determines that the disqualification may have had an impact on the performance by the reviewer or the reviewer's ability to issue a peer review report, the committee should consider requesting (onsite or offsite) additional procedures by an individual acceptable to the committee, possibly at the disqualified reviewer's expense. This could include partial or full working paper additional procedures covering all related documents underlying the peer review or limited to certain aspects affected by the disqualified reviewer, if there was more than one reviewer on the review team. Although the review would have already been performed, the additional procedures can still be performed afterwards with the cooperation of the reviewed firm and reviewer in either providing or forwarding requested items to the individual(s) performing the additional procedures. The additional procedures should be conducted as soon as reasonably practical but should commence not later than 30 days following the reviewer's communication of a decision not to recall the peer review report.

The individual performing additional procedures should approach the review with a higher degree of skepticism with regard to the reasons for the reviewer's ineligibility and carefully consider the effect of the ineligibility on the reviewer's ability to perform and report on the review. Based on his or her procedures, the individual performing additional procedures should fully report on these procedures

to the committee, including whether they were able to overcome concerns over the reviewer's qualifications during the performance of the review.

i. If the results of additional procedures are consistent with the documents previously accepted for the review, the committee should consider allowing the review to remain as originally accepted.

ii. However, if the results of additional procedures indicate that a substantially different report (report rating, scope, must-select industries, or deficiencies identified) should have been issued, or the concern about the reviewer's disqualification is so pervasive that additional procedures cannot overcome the concerns, then the committee should consider recall of the previously accepted peer review documents. The committee (or individual designated by the committee) should consult with the reviewed firm to determine whether the firm should undergo another full peer review performed by a qualified reviewer approved by the administering entity. This peer review could cover the same period or, depending on the timing or other factors, could cover a subsequent period. The committee's decision to recall the acceptance letter and confirmation of the firm's plan to have another review performed should be documented in a Notification of Acceptance Recall letter from the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff. If the reviewed firm agrees to have the review re-performed, the due date for the peer review should ordinarily be 90 days from the date of the Notification of Acceptance Recall letter. If the firm elects to have a replacement review of a subsequent period the administering entity will determine an appropriate due date based on the circumstances.

b. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Reviewer Disqualification Is Discovered More Than 120 Days After Peer Review Completion

If the discovery of the reviewer's disqualification occurs outside of the peer review working paper retention period (120 days after the completion of the peer review), the reviewer decides not to recall the peer review report, and the committee is unable to overcome concerns about the reviewer's disqualification and impact on the review, then the committee (or individual designated by the committee) should consult with AICPA staff to decide whether to recall the peer review documents. If acceptance is recalled, the committee (or individual designated by the committee) will consult with the reviewed firm to determine whether the firm should undergo a full peer review performed by a qualified reviewer approved by the administering entity. This peer review could cover the same period or, depending on the timing or other factors, could cover a subsequent period.

The committee's decision to recall acceptance and confirmation of the firm's plan to undergo another review performed by a qualified reviewer should be documented in a Notification of Acceptance Recall letter from the administering entity

on behalf of the committee, addressed to the firm, and copied to the reviewer and staff. If the reviewed firm agrees to have the review re-performed, ordinarily the due date for the peer review should be 90 days from the date of the Notification of Acceptance Recall letter. If the firm elects to have a replacement review of a subsequent period, the administering entity should determine an appropriate due date based on the circumstances.

6. *Additional Considerations by AICPA Staff and Board*

In instances in which the reviewer was determined to be ineligible to perform reviews staff should follow the fair procedures guidance in chapter 8 of this handbook. If the reviewer has limitations or restrictions, such guidance references Interpretation No. 34-2 which states that if a reviewer or reviewing firm fails to notify the relevant administering entity, AICPA technical staff, or both 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, onsite oversight at the reviewer's expense or permanent removal from the list of qualified peer reviewers Depending on the circumstances, the staff may make a referral to the AICPA's Professional Ethics Division for individuals who may have violated the *Code of Professional Conduct*.

Chapter 4

Objectives, Overview of System Review Process, and Evaluation and Acceptance of System Reviews

The purpose of this chapter is to assist reviewers and committee members in understanding certain aspects of the systemic approach and how findings are handled in the reporting model and outside of the reporting model (Findings for Further Consideration [FFC] forms). This chapter is not designed for the purpose of teaching reviewers how to perform a System Review. It may also assist them in understanding certain aspects of the systemic approach and how findings are expected to be handled.

I. Objectives of a System Review

A System Review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review

A. the reviewed firm's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA (Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* [AICPA, *Professional Standards*, QC sec. 10]).

B. the reviewed firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

II. Expanded Overview of Objectives on a System Review and Where Team Captains and Report Acceptance Bodies Need to Focus

The focus of a System Review is on the design and compliance with the firm's system of quality control. This requires the team captain to obtain a sufficient understanding of the firm's system of quality control (for all of the elements discussed in the SQCS No. 8). This understanding is obtained by performing a variety of procedures to determine if the system is designed appropriately and that the firm's degree of compliance is acceptable. The focus is not simply determining how many engagements do not conform with professional standards in all materials respects. Team captains must understand the firm's system of quality control to perform a proper risk assessment and to make the appropriate engagement, office, and partner selections. A proper understanding of the firm's system of quality control is also necessary to determine the systemic cause of matters identified.

For example, if several firm personnel tell the team captain they were unaware of a new audit or accounting standard, that probably explains much about the design (or lack thereof) of the firm's system of quality control, or the firm's compliance with an appropriately designed system, and should provide a clue as to what else the team captain may discover.

Likewise, if through interviewing the leadership of the firm and its staff, the team captain determines that the leadership in the firm has done nothing to promote an internal culture recognizing that quality is essential in performing engagements, and there are no established policies to support that culture, then the firm's system of quality control is not designed appropriately in accordance with professional standards.

These are just two examples in which firms have weaknesses in their systems of quality control. More often, a firm has an appropriately designed system of quality control but fails to comply with that system and, as a result of its noncompliance, one or more engagements are not performed in accordance with professional standards. The team captain, in collaboration with the firm, should determine the weakness in the firm's system of quality control that allowed a matter, such as a nonconforming engagement, to occur or go undetected and then will determine if the matter is pervasive or isolated. RABs are responsible for ensuring that the team captain has performed the peer review in accordance with the standards, and this includes ensuring, when possible, that team captains, in collaboration with the firm, have identified the "why" (systemic cause) before a System Review is accepted.

Conceptually, the peer review standards have always focused on the system of quality control. Proper application of the standards assists team captains in evaluating what they find and, as a result, the type of report to issue. This is a difficult process that always requires professional judgment, but there is an expectation that team captains will determine why a firm is not complying with professional standards in all material respects, in each circumstance in which it is reasonably possible to do so. Based on the answers to these systemic oriented inquiries, the team captain is led through the thought process of how the identified systemic issues affect the nature of the peer review report. This synthesis process is also critical to facilitate a fair and more consistent evaluation of peer review results.

III. System Review Process

It is critical that peer reviewers and RAB members have the same understanding of the process. Paragraph .38 of the standards contains an outline, which isn't necessarily all inclusive, of the procedures that should be included in the review.

A. Key components of a System Review include the planning considerations (sec. 1000 par. .39–.40), understanding the firm's accounting and auditing practice and system of quality control (sec. 1000 par. .41–.45), understanding and assessing peer review risk factors (sec. 1000 par. .46–.52) and planning and performing compliance tests (sec. 1000 par. .53–.68).

B. A broad understanding of the peer review process, from the preliminary evaluation of the design of the system of quality control, to the tests of compliance, to the decision making process of determining whether an item noted during a System Review is a matter, finding, deficiency, or significant deficiency, is shown in paragraph .71 (exhibit A) of the standards. Exhibit A also illustrates the aggregation of these items, where those items are documented in the practice aids, and how they might affect the type of report issued. Exhibit A of the standards is included as exhibit 4-1 of this chapter. Another tool to assist you in understanding the peer review process is the model at exhibit 4-1a.

C. Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

In understanding the firm's system of quality control, the team captain may note that the system is not designed appropriately. Similarly, the performance of compliance tests may uncover that the system is not being complied with appropriately or may identify a design weakness that was not identified during the planning of the peer review (sec. 1000 par. .69). It is extremely important for the team captain to (1) determine if the firm's system of quality control is designed appropriately and (2) be able to link what is identified in compliance tests to why (systemic cause) the matters that developed and went unresolved during the engagement.

Determining the relative importance of matters noted during the peer review, individually or combined with others, requires professional judgment (sec. 1000 par. .70) and is critical in ultimately determining the type of report to issue.

The descriptions that follow, used in conjunction with practice aids (that is, MFC, DMFC, and FFC forms) to document these items, when applicable, are intended to assist in aggregating and evaluating the peer review results, concluding on them, and determining the nature of the peer review report to issue (sec. 1000 par. .70). *This should not be confused with the concept of aggregating "no" answers on a specific engagement to determine whether an engagement was performed and reported on in conformity with professional standards in all material respects.*

D. Definitions to Assist with Classifying Peer Review Results

Each *matter* is evaluated in a sequential process to determine if it should be raised to the next level. This means that all items start out as *matters* and are evaluated individually and in aggregate to see if it qualifies to be considered for the next level. *Matters* are evaluated to see if they

become *findings*, then *findings* are evaluated to see if they become *deficiencies*, and *deficiencies* are evaluated to see if they become *significant deficiencies*.

Because this is critical in determining the type of report to issue and to facilitate a consistent peer review process, the following definitions apply:

1. A peer reviewer notes a *matter* as a result of his or her evaluation of the design of the reviewed firm's system of quality control or tests of compliance, or both, with it. Tests of compliance include inspection, inquiry, and observation performed by reviewing engagements and testing other aspects of the reviewed firm's system of quality control. Matters are typically one or more "no" answers to questions in a peer review questionnaire(s) that a reviewer concludes warrant further consideration in the evaluation of a firm's system of quality control. A matter is documented on a MFC form (sec. 1000 par. .70*a*).

2. A *finding* is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards. A peer reviewer must subsequently conclude whether one or more findings are a deficiency or significant deficiency. If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form (sec. 1000 par. .70*b*).

   It is very important to note that a finding now has systemic definition (whereas a matter does not have a systemic definition) and is a very critical threshold. Findings (which are ultimately determined not to be deficiencies) are not addressed in the peer review report.

3. A *deficiency* is one or more findings that the peer reviewer has concluded that, due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. It is <u>not</u> a significant deficiency if the peer reviewer has concluded that <u>except for</u> the deficiency or deficiencies, the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies* (sec. 1000 par. .70*c*).

4. A *significant deficiency* is one or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed firm's system of quality control or compliance with it such that the reviewed firm's system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Such deficiencies are communicated in a report with a peer rating of *fail* (sec. 1000 par. .70*d*).

Exhibit 4-1 illustrates the aggregation of these items, where items are documented in the practice aids, and how they might affect the type of report issued. Exhibit 4-1a gives an illustration of the thought process a team captain might go through in the aggregation and systemic evaluation of matters noted on a System Review and the determination of the type of report to issue.

E. Type of Matters in a System Review

Design matters. A design matter exists when the reviewed firm's system of quality control is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would not result in engagements performed or reported on in accordance with professional standards in some respect (sec. 1000 par. .77).

Compliance matters. A compliance matter exists when a properly designed quality control policy or procedure does not operate as designed because of the failure of the personnel of the reviewed firm to comply with it. Because a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects (sec. 1000 par. .80).

F. Consideration of Nature, Systemic Causes, Pattern, and Pervasiveness of Matters

The review team must consider the pattern and pervasiveness of matters and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature, systemic causes, and relative importance in the specific circumstances in which they were observed (sec. 1000 par. .86).

1. Determination of Why the Matters Occurred (the systemic cause)

The review team's first task, in collaboration with the firm, is to try to determine why the matters occurred. Causes that might be systemic and might affect the type of peer review report issued include, but are not limited to, the following (sec. 1000 par. .83):

a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance (sec. 1000 par. .83*a*).

b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice (sec. 1000 par. .83*b*).

c. The failure should have been detected if the firm's quality control policies and procedures had been followed (sec. 1000 par. .83*c*).

d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge. In some cases, the reviewer will wish to consult with the administering entity before reaching such a conclusion (sec. 1000 par. .83*d*).

2. Pattern and Pervasiveness of Matters

   In some cases, there may be a pattern of noncompliance with a quality control policy or procedure such as when firm policy requires the completion of a financial statement disclosure checklist, but such checklists often were not used or relevant questions or points were incorrectly considered. That increases the possibility that the firm might not perform or report in conformity with applicable professional standards in all material respects, which also means that the reviewer must consider carefully whether the matter(s) individually or in the aggregate (are) a finding, deficiency, or significant deficiency. On the other hand, the types of matters noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the matters were isolated cases of human error that should not result in a peer review report with a peer review rating of *pass with deficiencies* or *fail* (sec. 1000 par. .86) and, accordingly, a report with a peer review rating of *pass* is appropriate.

G. Evaluation and Consideration of Deficiencies and Findings Identified in the Firm's Previous System Review

   Repeat deficiencies [fn7] are those deficiencies or significant deficiencies that were identified in the current report that were also noted in the report issued on the firm's previous review. A "repeat" determination is based on the systemic cause of the deficiencies or significant deficiencies. The preceding also applies when the deficiency or significant deficiency noted during the current review was caused by the same system of quality control weakness noted on a FFC form in the prior review. A repeat finding is one or more related matters that result from a condition in the reviewed firm's system of quality control or compliance with it that is noted during the current review and also on a FFC form in the prior peer review.

   1. For potential repeat deficiencies, if corrective actions have been implemented and the same deficiency or significant deficiency is occurring, the review team, in collaboration with the firm, should determine the weakness in the firm's system of quality control that is causing the deficiency or significant deficiency to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm's system of quality control. If the systemic

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[fn7] Wording should always say, "This deficiency [or significant deficiency, as applicable] was noted in the firm's previous peer review(s)."

cause of the deficiency or significant deficiency is different from than reported in the prior review, it would not be a repeat.

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

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

3. When repeat deficiencies are noted as occurring for the third time or more, the report should include a sentence that the deficiency has occurred on previous reviews.

4. A RAB's conclusions and actions regarding the repeat deficiencies could be affected by several factors, including the reason for the repeat deficiencies, the firm's response to the repeat deficiencies, and whether corrective action was requested on the prior review, type of action requested, and whether it was completed. See section V.

IV. Types and Consideration of Reports to Issue in a System Review

A. Report Rating—*Pass*

A report with a peer review rating of *pass* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably

designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, or significant deficiencies. In the event of a scope limitation, a report with a peer review rating of *pass* (with a scope limitation) is issued (sec. 1000 par. .88).

B. Report Rating—*Pass With Deficiencies*

A report with a peer rating of *pass with deficiencies* should be issued when the team captain concludes that the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency (deficiencies) that is (are) described in the report. The deficiency (deficiencies) is (are) conditions (a condition) related to the firm's design of and compliance with its system of quality control that could create a situation in which the firm would have less than reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects due to the nature, systemic causes, pattern, or pervasiveness, including the relative importance of the deficiency (deficiencies) to the quality control system taken as a whole. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies* (with a scope limitation) is issued (sec. 1000 par. .89).

C. Report Rating—*Fail*

A report with a peer review rating of *fail* should be issued when the team captain has identified a significant deficiency (deficiencies) and concludes that the firm's system of quality control is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. In the event of a scope limitation, a report with a peer review rating of *fail* (with a scope limitation) is issued (sec. 1000 par. .90).

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

The guidance in this chapter is to assist RABs in determining when and what type of corrective action(s) or implementation plans a firm should be required to take given a set of circumstances on a System Review. Chapter 6 contains guidance for monitoring corrective action(s) or implementation plans, determining when to require additional corrective actions or implementation plans when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required corrective action(s) or implementation plans or refuses to cooperate.

The decision of whether to require corrective action(s) or implementation plans and deciding on what actions or procedures are appropriate is a matter of professional judgment that each RAB makes based on the applicable facts and circumstances. RABs should consider this guidance but may need to consider alternative corrective actions more suited for the situation.

The RAB should not instruct reviewed firms to perform omitted procedures, to reissue accounting or auditing reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. Firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are appropriate, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

If the firm determines that omitted procedures will be performed, that notifications will be made to those relying on the reports, or that financial statements will be revised or reissued prior to the peer reviewer's conclusion on the engagement or conclusion on the peer review, it is not expected that these actions will be completed before the peer review concludes. However, the firm's response should include its intention to perform these steps, if known. The RAB may require follow up action to evaluate the firm's follow through on the intended or alternative steps taken.

When the reviewer identifies an engagement not performed or reported on in conformity with applicable professional standards in all material respects, the team captain should thoroughly evaluate the reviewed firm's considerations and decision with due consideration of applicable professional standards to determine whether a corrective action or implementation plan should be suggested. The firm's considerations should include whether to perform and document omitted procedures to support a previously issued report, whether to reissue reports, whether to have previously issued financial statements revised and reissued, or whether to remediate the subsequent engagement. The firm should include the summary of these considerations and conclusions in its response, generally documented on a MFC form. If the reviewed firm's response is appropriately documented and the reviewer has reviewed the actions taken prior to the peer review submission for acceptance, then further committee action is not necessary related to the specific engagement.

If the team captain concludes that the reviewed firm's considerations and response are proper and appropriately documented and the firm indicates in its response that it intends to complete omitted procedures, to reissue the report, or to have previously issued financial statements revised and reissued, the RAB should consider whether the firm's response is genuine, comprehensive, and feasible. The RAB also should ordinarily consider whether to impose a monitoring action (corrective action or implementation plan, as applicable) requiring that the reviewed firm agree to submit evidence to an outside party acceptable to the RAB of performing and documenting the omitted procedures or of reissuing the report, if appropriate. This type of monitoring action is applicable only in instances in which an engagement not performed or reported on in conformity with applicable professional standards in all material respects supports a deficiency or an initial finding for further consideration (FFC) in a must-select industry or supports a repeat FFC in any industry. If such an engagement does not support a deficiency or a FFC in a must-select industry or a repeat FFC in any industry, the RAB should evaluate the firm's considerations and actions planned or taken and the reviewer's assessment to determine whether revisions to the MFC form or other peer review documents are necessary before the review is accepted.

When the RAB deems that the reviewed firm's response is not sufficient (genuine, comprehensive, and feasible) or has substantial reason to challenge the firm's documented considerations or the reviewer's assessment of the firm's response to address an engagement not performed or reported on in conformity with professional standards in all material respects, the RAB should defer acceptance of the review pending revisions or additional information to resolve the matter. If the RAB determines that the firm has not properly considered applicable professional standards to address such an engagement, the firm's actions may affect other corrective actions or implementation plans that the committee may impose, or they may cause the RAB to not accept the peer review and consider that the firm is not cooperating with the peer review program. Additionally, if the team captain or RAB concludes that the firm's response and consideration of the applicable standards is not appropriate to address the nonconforming engagement, the team captain should evaluate whether there are other weaknesses in the firm's system. For example, an inappropriate response may be indicative of a potential failure to comply with the leadership or tone at the top element in the firm's system of quality control. A failure to properly consider how to address nonconforming engagements may indicate an internal firm culture that fails to promote that quality is essential in performing engagements.

A. In an effort to promote consistency, the following situations should be considered before deciding upon certain corrective actions and implementation plans on FFCs on System Reviews.

1. System Review Report Rating—*Pass*

a. A RAB should not require *any* remedial, corrective action(s) as a condition of acceptance of a System Review with a report with a rating of *pass*. However, there may be instances where an implementation plan is required as a result of FFCs. See item (A.4) in the following text, for treatment of FFCs, if any

2. System Review Report Rating—*Pass With Deficiencies*

a. When a firm receives a report with a rating of *pass with deficiencies*, the RAB ordinarily should require some type of remedial, corrective action as a condition of acceptance regardless of whether the firm appears to have an understanding of professional standards. In addition, there may be instances where an implementations plan is required as a result of FFCs. See item (A.4) in the following text for treatment of FFCs, if any.

b. The type of action required would depend on the nature of the deficiencies. See suggested actions in exhibit 4-2.

(1) If, for example, the deficiencies are related to engagement performance (including documentation matters), the RAB may decide to require that the firm allow the team captain or someone acceptable to the RAB to revisit the firm within a reasonable period of time. The purpose of the revisit is to determine that the corrective actions discussed by the firm in its response are being effectively implemented. The individual performing the revisit should issue a report that describes the results of revisit procedures and his or her conclusions on the firm's progress.

(2) If the deficiencies are related to noncompliance of another element of the quality control system (human resources, for example), as evidenced by engagement deficiencies related to a specific industry or area of accounting or auditing subjects, the RAB should ordinarily require that identified members of the firm take specified amounts and types of continuing professional education (CPE) and submit evidence of completion. If the firm's response indicates that someone has already taken the needed CPE, or that it has hired someone with the needed expertise, the RAB may conclude that the problem is resolved by asking the firm to allow the team captain or someone acceptable to the RAB to review the report, financial statements, and selected working papers on an engagement performed subsequent to the peer review.

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

(4) If the deficiencies are related to engagements in a specific industry (for example, single audit or employee benefit plans) that are not performed or reported on in conformity with applicable professional standards in all material respects, the RAB may consider requiring the identified firm members to take specified amounts and types of continuing professional education (CPE) and submit evidence of completion. In these situations, the RAB may allow the identified firm members to pass the related AICPA Advanced Certificate Exam, if applicable, in lieu of CPE.

(5) If the deficiencies pertain to other quality control matters, the corrective action should be tailored to those matters.

(6) The RAB may choose to require the firm allow the team captain or someone acceptable to the RAB to review completion of its intended remedial actions outlined in its letter of response or evaluate appropriateness of alternative actions.

(7) The RAB may choose to permit, but should not require except in rare circumstances, the firm to undergo an accelerated peer review in lieu of other remedial or corrective actions considered necessary in the circumstances.

This would only be allowed when the firm elects, in writing, to have an accelerated review. An accelerated review would only be appropriate when the corrective action is post-issuance review or a team captain revisit.

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

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

3. System Review Report Rating—*Fail*

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

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

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

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

(3) Choose to permit, but should not require except in rare circumstances, the firm to undergo an accelerated peer review in lieu of other remedial or corrective actions considered necessary in the circumstances. This would only be allowed when the firm elects, in writing, to have an accelerated review. An accelerated review would only be appropriate when the corrective action is post-issuance review or a team captain revisit.

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

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

4. System Review Finding for Further Consideration Form(s)

a. Unless a nonconforming engagement is included as part of the finding, a RAB ordinarily would not require an implementation plan for a firm when its responses to the findings addressed on the FFC form(s) are comprehensive, genuine, and feasible. RABs may not be able to determine if responses are comprehensive, genuine, and feasible if the reviewed firm does not describe how the firm's actions taken or planned to remediate findings in the firm's system of quality control and nonconforming engagements, if applicable, and the timing of the remediation. If the responses are not comprehensive, genuine, and feasible, the RAB should have the firm revise its responses. An implementation plan is not required if the finding includes a nonconforming engagement, however, if the firm's remediation of the engagement was not reviewed or understood by the team captain, it is strongly encouraged. If the RAB determines, as part of its deliberations regarding the peer review, that an implementation plan in addition to the plan described by the firm in its responses on the FFC forms is warranted, the firm will be required to evidence its agreement to the implementation plan.

An implementation plan may consist of requiring specified CPE or submission of the firm's next monitoring report to the RAB. If the RAB is considering a more extensive action involving submission of documents to an outside party, then the RAB needs to consider whether the findings should have been elevated to deficiencies in the report. If the finding is related to an engagement that was not performed or reported on in accordance with professional standards in all material respects, involving an outside party in the implementation plan may be appropriate as described in 4*b*. The RAB should not require an accelerated review as an implementation plan. However, the reviewed firm may elect to have an accelerated review as an alternative to completing an implementation plan of post-issuance review or submission of the firm's monitoring report to an outside party.

b. When a firm receives a finding on a FFC form in relation to an engagement that was not performed or reported on in accordance with professional standards in all material respects and the RAB has determined the finding should not be a deficiency, the RAB should consider whether the engagement was in a must select industry as described in Interpretation No. 63-1 of par. .63 in PRP sec. 1000, *Standards for Performing and Reporting on Peer Reviews* (PRP sec. 2000). See allowable plans in exhibit 4-2.

(1) Must select industry—the implementation plan for an initial or repeat finding may include requiring the firm to hire an outside party acceptable to

the RAB to perform pre-issuance or post-issuance reviews or to review the firm's internal monitoring or inspection report. The pre-issuance or post-issuance review should focus on the issues identified in the finding and may not need to be performed on the entire engagement. The monitoring and inspection procedures should place particular emphasis on the findings reported on the FFC form and the actions outlined in the firm's response.

(2) Industries other than must select—the implementation plans described previously for must selects would only be appropriate for repeat findings.

c. When a firm receives a finding on a FFC form, which is determined to be a repeat, there is a question about whether some further action is required. In making this decision, the RAB must first look to see whether the firm made a genuine effort to correct the situation from the prior review(s).

(1) If it is apparent that the firm attempted to correct the repeated finding, and the firm's response on the FFC form is specific on how the situation will be corrected, the RAB may decide that no additional implementation plan is necessary.

(2) If, on the other hand, it appears that the firm did not make a concerted effort to correct the repeated finding or if the RAB does not believe that the firm is committed to correct the situation, then it may require an implementation plan. The implementation plan could include such actions as requiring specified CPE or requiring the firm to submit a copy of an internal monitoring or inspection report to the RAB for review. The monitoring and inspection procedures should place particular emphasis on the findings reported on the FFC form, and the actions outlined in the firm's response. As noted previously, involvement of an outside party is only acceptable in relation to engagements not performed or reported on in accordance with professional standards in all material respects. See allowable plans in exhibit 4-2.

(3) The guidance for allowable plans as discussed previously and included in exhibit 4-2 must be followed, even in instances when the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required CPE. For example, the RAB may determine that more than eight hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm's monitoring report to the RAB.

d. Actions that should not be required by RABs as implementation plans, in any situation, are that a team captain revisit or monitoring performed by an outside party. Such actions may be appropriate responses for broader system deficiencies,

but they are not appropriate to address an isolated finding resulting in engagements not performed or reported on in accordance with professional standards in all material respects except as those activities described in 4*b*. If the RAB believes one of these broader system-based actions is necessary, what has been reported as a finding should more likely be reported as a deficiency in the report. The RAB also should not require an accelerated review as an implementation plan. However, the reviewed firm may elect to have an accelerated review as an alternative to completing an implementation plan of post-issuance review or submission of the firm's monitoring report to an outside party.

e. The committee should establish a due date when the implementation plan should be completed. The implementation plan should be considered as soon as reasonably possible; however, all known and relevant facts and circumstances should be considered (such as the timing of CPE program presentations or availability, or the timing of the firm's monitoring procedures).

B. Communication of Corrective Action(s) or Implementation Plans to the Firm

1. When a decision is made to require corrective action(s) or implementation plans, the RAB or its designee should consider a need to call the firm before it sends a letter describing the required actions or plans in order to explain its decision and to eliminate the surprise. For remedial, corrective actions, the firm will be required (*a*) to evidence its agreement to perform these corrective action(s) in writing before the report is accepted and (*b*) to complete the action(s) as a condition of cooperation with the administering entity and the board. For implementation plans, the firm will be required (*a*) to evidence its agreement to perform and complete the implementation plan (*b*) in writing as a condition of cooperation with the administering entity and the board.

2. When corrective action(s) or implementation plans require a service from an outside party such as an external inspection or other monitoring assistance or a pre-issuance review, and the firm wants to use the team captain or team member who performed the firm's peer review, independence rules must be considered. A RAB member or the other designated party should consider a need to discuss the following guidance with the firm or the review team captain or other outside party performing the corrective action or implementation plan, as applicable, to ensure that its ramifications are clearly understood.

   In the Interpretation titled "Independence, Integrity, and Objectivity" of the revised *Standards*, independence would be considered impaired for purposes of being able to perform a firm's peer review (whether as a team captain, review captain, or team member) for anyone also performing monitoring (for instance, engagement quality control review, post-issuance review, or inspection procedures), a consulting review, a quality control document review, preliminary quality control procedures review or pre-issuance review on an accounting or auditing engagement for the firm in the year prior to the current peer review year end. This would also apply if another individual from the reviewer's firm was performing such services. The only exception is if those services were performed for

the year immediately following the previous peer review year end. Thus, performing those services for the year preceding or during the year of the next peer review would impair independence for peer review purposes.

Exhibit 4-1

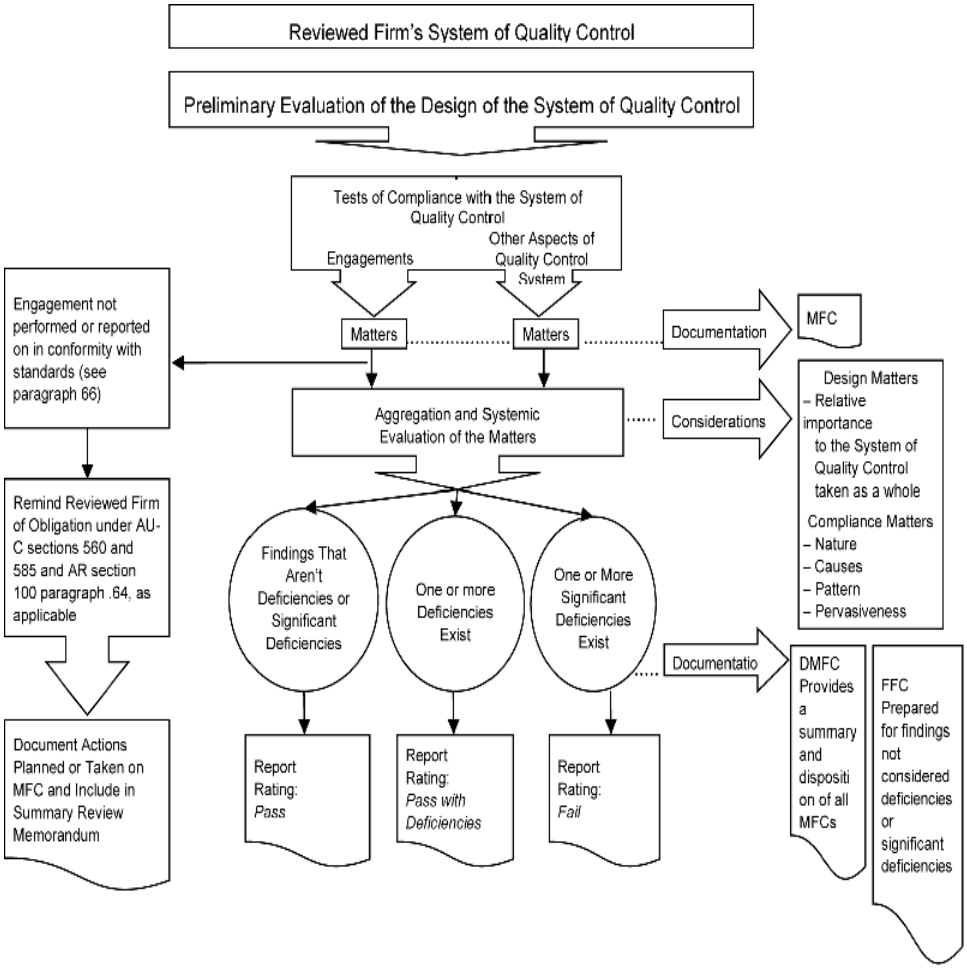
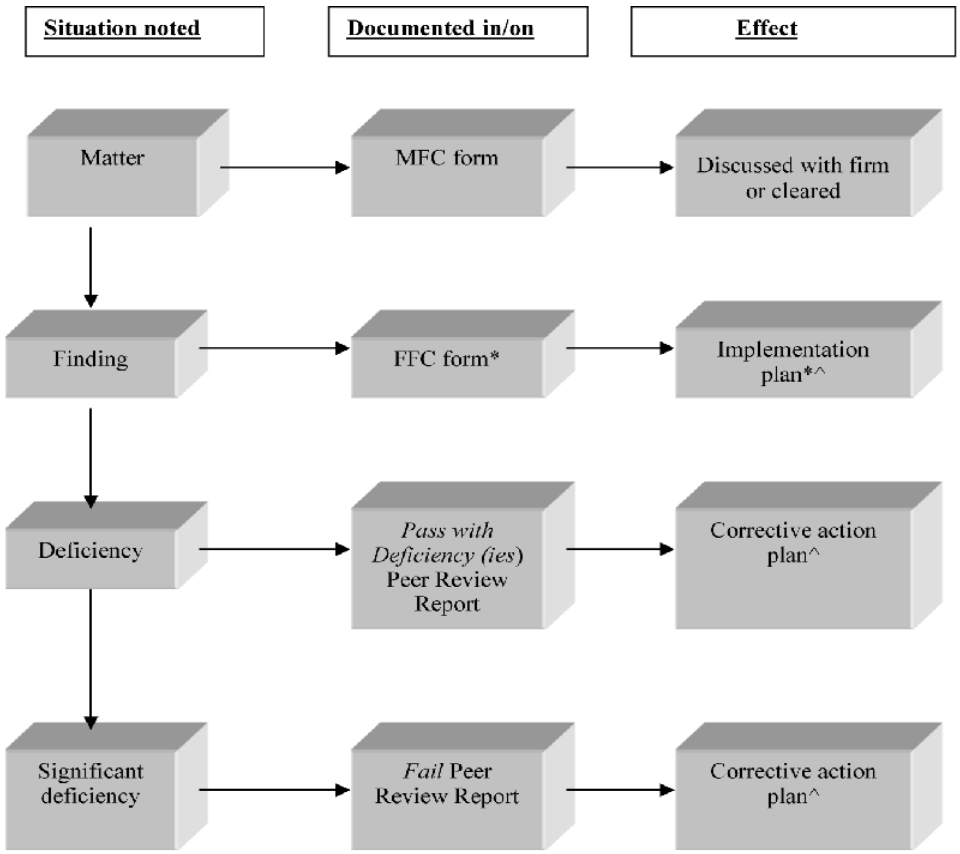


Exhibit 4-1a — Illustration of Aggregation and Systemic Evaluation of Matters on a System Review



* Only if the finding is not elevated to a deficiency or significant deficiency

^ Only if requested by the administering entity's peer review committee

To illustrate, in a System Review, a matter is documented on a Matter for Further Consideration (MFC) form and discussed with the firm or cleared. If it does not get elevated further, a report with a peer review rating of *pass* is issued. However, depending on the resolution of a matter, and the process of aggregating and evaluating peer review results, a matter may develop into a finding. Findings will also be evaluated and, after considering the nature, systemic causes, pattern, pervasiveness, and relative importance to the system of quality control as a whole, may not get elevated to a deficiency or significant deficiency. Such finding is documented on a FFC form, and the administering entity's peer review committee will determine if it should require an implementation plan from the reviewed firm in addition to the plan described by the firm in its response to the findings on the FFC form. However, if during that process, the matter, which has been elevated to a finding (and thus far only documented on the MFC form) is further elevated to a deficiency or significant deficiency, it is communicated in the report itself (*pass with deficiency* or *fail* report, respectively). The administering entity's peer review committee will ordinarily require remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report, in addition to or as an affirmation of those described by the reviewed firm in its letter of response. Because it is possible for a firm to receive a *pass with deficiency* or *fail* report, as well as FFCs which had not been elevated to deficiency or significant deficiency, it is possible for the firm to be responsible for submitting a corrective action plan related to the deficiency(ies) or significant

deficiencies in the peer review report, as well as an implementation plan in response to the FFCs that did not get elevated.

EXAMPLE 1

2 partners

5 CPA staff

4 Government audits (500 hours each—two for each partner)

4 Employee Retirement Income Security Act (ERISA) audits (500 hours each—two for each partner)

5 Other audits (1000 total hours)

The team captain gained an understanding of the firm's system of quality control and considered various risk factors including the fact that one of the firm's partners (the third partner) left the firm with one staff person in the year prior to the year covered by the peer review. Both of these individuals that left the firm had been responsible for the firm's ERISA engagements in the past and everyone involved in the ERISA audits considered in the peer review were new to the engagements and had not previously performed an ERISA audit.

The team captain originally selected one of each type of audit for review. After considering the previous information and determining that the initial ERISA audit selected was not performed in accordance with professional standards in all material respects, the team captain expanded scope and performed a review of selected audit areas on each of the other ERISA audits.

The governmental and other audit had no MFCs or matters, but there were several MFCs related to the ERISA audits. The matters noted on the ERISA audits related to no participant data testing, no specific procedures for determining the existence of related parties, and no evaluation of the reasonableness of significant accounting estimates made by management; and there was no documentation of the entity's internal control components in planning the audit, in addition to other documentation matters. Upon further discussion with the firm, the team captain discovered that neither partner had taken any ERISA training in the last 5 years and on each audit, the respective partner only reviewed the report, financial statements, and footnotes and only skimmed some of the audit documentation. Two staff in the firm took a 4-hour self-study ERISA course before performing the audit, but they had never performed one before. The whereabouts of the documentation and working papers from the previous ERISA audits were unknown and, therefore, unavailable for the current year's audit.

Determining the Systemic Cause of the Matters

- The team captain's next steps were to determine, based on all of the information gathered on the peer review, including the review of engagements, and in collaboration with the firm, what were the systemic cause(s) of the matters noted on the ERISA engagements. The team captain considered a variety of possibilities, such as the following: Did the firm comply with its policies and procedures for Acceptance and Continuance of Client Relationships and Specific Engagements? The team captain considered whether the firm was competent to perform the engagements and had the capabilities and resources to do so based on the circumstances.

- Did the firm comply with its policies and procedures for Human Resources? Did the firm have sufficient personnel with the capabilities, competence, and commitment to ethical principles to perform engagements in accordance with professional standards?

- Did the firm comply with its policies and procedures for Engagement Performance? Did the engagements have appropriate supervision, staff training, and mentoring such that appropriate procedures were performed and work documented?

- Were the firm's Monitoring policies and procedures designed and complied with appropriately?

Based on the team captain's professional judgment and in collaboration with the firm, he determined that although an argument could be made for contributory systemic causes, the primary systemic cause related to Acceptance and Continuance of Client Relationships and Specific Engagements.

Evaluation of "Matters" to the Level of "Finding" Then Evaluation of "Finding" to the Level of "Deficiency" and Evaluation of "Deficiency" to the Level of "Significant Deficiency"

The team captain considered all of the facts in evaluating whether these "matters" rose to the level of "findings." The team captain was able to conclude that as a result of the conditions noted in the firm's system of quality control (and noncompliance with it), that the firm had more than a remote possibility of not performing engagements in conformity with professional standards. This is the threshold for a "finding." However, the team captain also concluded that due to the nature, systemic causes, pattern, and pervasiveness, including the relative importance of the finding to the reviewed firm's system of quality control taken as a whole, that a situation could be created where the firm would not have reasonable assurance of performing engagements in conformity with professional standards in one or more important respects. Therefore, the team captain determined that this finding does rise to the threshold level of a deficiency. The team captain then considered whether the deficiencies should be raised to the level of a significant deficiency to be included in a report with a rating of *fail*. The team captain determined that deficiencies, in the aggregate, did not result in a conclusion that the firm's system of quality control, taken as a whole, did not provide reasonable assurance of complying with applicable professional standards in all material respects.

Determining the Type of Report to Issue

Because deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*, the team captain issued such a report.

In addition, because the deficiencies were specific to the ERISA industry, the team captain identified this industry and level of service (audits) in the report as required by standards.

All of the team captain's MFCs were listed in the DMFC. The DMFC noted that all matters were included in the report, and no FFCs were prepared.

EXAMPLE 2

Alexander, Graham & Bell had a peer review due June 30, 2009. In October 2007, a new partner, Bell, had joined the firm. Bell's specialty was audits of manufacturing companies. During the summer of 2007, the firm experienced an unusually high rate of turnover at the senior level. The firm was able to recruit new staff in December 2007.

During the planning stage of the peer review, the team captain, Isabelle Jenkins, was informed of the previous events. Ms. Jenkins had performed the firm's previous peer review. She remembered that the firm had a reliable system of quality control, the managing partner was adamant about being ethical and following professional standards, and that the firm's policies and procedures were well documented and always followed to an acceptable degree. In determining the risk assessment, Ms. Jenkins had decided that although the nature of the firm's practice and the history from the firm's previous peer review could conclude inherent risk to be low, she ultimately determined inherent risk would be moderate to high due to a new partner and several new staff added during the peer review year. Ms. Jenkins determined that she would review at least two engagements of Mr. Bell's because he was new to the firm.

During the review of two of Mr. Bell's engagements, Ms. Jenkins determined that one of the audits had several "no" answers in the engagement checklist. After reviewing Mr. Graham's audit engagement, Ms. Jenkins concluded there were similar "no" answers in its engagement checklist. Ms. Jenkins compared the two checklists and determined that the "no" answers were similarly related: lack of or poor documentation on tests of inventory, consideration of related party transactions, and results of accounts receivable confirmation procedures. Ms. Jenkins had determined that these engagements were not performed or reported on in conformity with applicable professional standards in all materials respects.

In addition to the three audits, Ms. Jenkins reviewed two review engagements and one compilation with disclosures. There was only one "no" answer on each checklist. They were not related and were not significant enough to warrant further consideration.

Ms. Jenkins correctly concluded on the engagements but had not yet determined the systemic cause for the findings. Ms. Jenkins did not expect these types of findings. Based on the results of the prior peer review, the firm had previously complied with its system of quality control, had a strong "tone at the top," and the policies and procedures were written in detail.

Ms. Jenkins noted that the same senior staff person had been in-charge of both of the audit engagements on which the engagement oversights were identified. This senior was also selected to complete the staff interview form. During the review of CPE and confirmed in her discussion with the senior, Ms. Jenkins learned that the senior had not had any audit CPE for the last two years and did not have previous audit experience. Ms. Jenkins concluded that this contributed to or caused the engagement performance errors noted in her review of the working papers. As a result, Ms. Jenkins expanded scope to review selected other engagements to which this senior was assigned in an "in-charge" role. The engagements were limited to reviews and compilations, and no findings were noted on these engagements.

Ms. Jenkins had issued a *pass with deficiency* report with the only deficiency indicating that the firm's policy and procedures require an appropriate level of supervision and review, and personnel have the capabilities and competencies required for the types of engagements and services being performed. The firm had failed to assess the capabilities and competencies of the assigned personnel and make appropriate adjustments to the level of supervision and review. Ultimately the partner did not provide adequate

supervision and review necessary. As a result, the firm had performed audits that did not conform to professional standards in all material respects. The firm intends to recall and reissue those audit reports.

Exhibit 4-2 — Suggested Actions and Allowable Plans

System Review Peer Review Rating—*Pass With Deficiencies* or *Fail*

Deficiency or Significant Deficiency	**Suggested action(s) to be performed as soon as reasonably possible**
Deficiency or significant deficiency related to engagement performance	• Require the firm to hire an outside party acceptable to the RAB to perform a team captain revisit [fn 8] • Require members of the firm to take specified types of and amounts of CPE[fn9] • Allow firm members responsible for the applicable type of engagement(s) not performed or reported on in accordance with professional standards to pass the related AICPA Advanced Certificate Exam, if applicable, in lieu of CPE [fn 10] • Require the firm to hire an outside party acceptable to the RAB to perform preissuance reviews of certain types or portions of engagements and to report quar-

[fn8] RAB should allow flexibility and allow the firm to elect to have an accelerated review in lieu of team captain revisit or post-issuance review.

[fn9] If the deficiency or significant deficiency relates to an area where prevalent nonconformity has been identified through the AICPA Enhancing Audit Quality Initiative, then specific CPE to address the common areas of noncompliance should be required by the RAB. The AICPA courses located on the Peer Review page of the AICPA website provide the content intended to meet this requirement. Either the AICPA course or an alternative course with substantially the same content as the AICPA course should be required by the RAB.

[fn 10] This option is only allowable for firms who have engagements in certain industries that were identified in the peer review as not performed or reported on in accordance with professional standards in all material respects and a related AICPA Advanced Certificate exists.

Deficiency or Significant Deficiency	Suggested action(s) to be performed as soon as reasonably possible
	terly to the RAB on the firm's progress • Require post-issuance review of a subsequent engagement by an outside party [fn 11] • Require the firm to hire an outside party acceptable to the RAB to review the firm's remediation of an engagement not performed or reported on in conformity with professional standards in all material respects • Require the firm to hire an outside party acceptable to the RAB to review the firm's completion of its intended remedial actions outlined in its letter of response or evaluate the appropriateness of alternative actions • Require the firm to join an AICPA audit quality center applicable to the type of engagement(s) not performed or reported on in accordance with professional standards in all material respects [fn 12]
Deficiency or significant deficiency related to design or noncompliance of another element of the quality control system	Tailor corrective action accordingly, such as the following: • Require submission of monitoring or inspection report • Require the firm to hire an outside party

[fn 11] See footnote 8.

[fn 12] This option is only allowable for firms who have governmental and employee benefit plan engagements that were identified in the peer review as not performed or reported on in accordance with professional standards in all material respects. In addition, the firm must be eligible to enroll in the respective audit quality center. This action may not be in lieu of any other corrective action deemed appropriate by the committee and must be used in conjunction with other corrective actions

Deficiency or Significant Deficiency	Suggested action(s) to be performed as soon as reasonably possible
	acceptable to the RAB to perform pre-issuance reviews of certain types or portions of engagements and to report periodically to the RAB on the firm's progress

Finding for Further Consideration Form(s) [fn 13]

Finding	Allowable plans to be performed as soon as reasonably possible
Engagements not performed or reported on in conformity with professional standards in all material respects and there are: • initial finding(s) on must select industry, or • repeat finding(s) for any industry	• Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance or post-issuance reviews of certain types or portions of engagements focusing on the areas identified in the finding • Require the firm to hire an outside party acceptable to the RAB to review the firm's internal monitoring or inspection report • Require members of the firm to take specified types of and amounts of CPE[fn14] • Require firm to submit monitoring or in-

[fn 13] These are the only situations in which implementation plans are appropriate. Further, these are the only plans allowable. If the RAB believes a different implementation plan is necessary, what has been reported as a finding should more likely be reported as a deficiency in the report.

[fn 14] If the finding relates to an area where prevalent nonconformity has been identified through the AICPA Enhancing Audit Quality Initiative, then specific CPE to address the common areas of noncompliance should be required by the RAB. The AICPA courses located on the Peer Review page of the AICPA website provide the content intended to meet this requirement. Either the AICPA course or an alternative course with substantially the same content as the AICPA course should be required by the RAB.

Finding	Allowable plans to be performed as soon as reasonably possible
	spection report to the RAB • Require the firm to hire an outside party acceptable to the RAB to review the firm's remediation of an engagement not performed or reported on in conformity with professional standards in all material respects • Require the firm to hire an outside party acceptable to the RAB to review the firm's completion of its intended remedial actions outlined in its response on the FFC form or evaluate the appropriateness of alternative actions
Engagement(s) indicate the following: • Repeat findings [fn15]	• Require members of the firm to take specified types of and amounts of CPE[fn16] • Require firm to submit monitoring or inspection report to the RAB
• Failure to possess applicable firm license(s)	• Submit proof of valid firm license(s)

[fn 15] The guidance for allowable plans as discussed previously in this section must be followed, even in instances when the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required continuing professional education (CPE). For example, the RAB may determine that more than eight hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm's monitoring report to the RAB.

[fn16] See footnote 14.

Chapter 5

Objectives, Engagement Selection Process, Evaluation, and Acceptance of an Engagement Review

I. Objectives of an Engagement Review

A. 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 (sec. 1000 par. .102).

B. Review captains must determine whether that threshold for engagements reviewed is met or not met, based on a set of peer review procedures to be performed.

C. Upon review of the engagements, the review captain may identify matters, finding, deficiencies, or significant deficiencies, all of which will need to be addressed.

D. The peer review report issued depends on whether the engagements submitted for review are performed and reported on in conformity with applicable professional standards in all material respects.

E. Although there is some professional judgment in evaluating the engagements, in order to assist in the consistency of the peer review process, guidance has been developed by the AICPA Peer Review Board to facilitate a reasonably consistent method of performing Engagement Reviews, as well as reporting on and report acceptance bodies (RAB) acceptance of Engagement Reviews.

F. The peer review committee and its RABs are responsible for determining that the peer review was performed and reported on in accordance with the standards, interpretations, and guidance issued by the board and therefore guidance in this chapter is relevant to RABs.

II. Process a Review Captain Follows in Selecting, Evaluating, and Concluding on the Engagements Reviewed in an Engagement Review

A. Criteria for Selecting the Engagements for the Review (sec. 1000 par. .104–.105)

1. Engagements subject to review ordinarily should be those with periods ended during the year under review.

2. For financial forecasts or projections and agreed upon procedures, the selection for review ordinarily should be those engagements with report dates during the year under review.

3. The reviewed firm should provide summarized information showing the number of its compilation, review, and preparation engagements performed under Statements on Standards for Accounting and Review Services (SSARSs) and engagements performed

under the Statements on Standards for Attestation Engagements (SSAEs), classified into engagement type and industry categories.

4. This information should be provided for each partner, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements or the issuance of prepared financial statement with or without disclaimer reports.

5. On the basis of that information, the review captain or the administering entity for a CART review ordinarily should select the engagements to be submitted for review, in accordance with the following guidelines:

    a. One engagement should be selected from each of the following areas of service performed by the firm:

        - Review of financial statements (performed under SSARS)
        - Compilation of financial statements with disclosures (performed under SSARS)
        - Compilation of financial statements that omit substantially all disclosures (performed under SSARS)
        - Engagements performed under the SSAEs other than examinations

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

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

        1. One preparation engagement with disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item (a) or when the firm's only engagements with disclosures are preparation engagements.

        2. One preparation engagement that omits substantially all disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item (a) or when the firm's only omit disclosure engagements are preparation engagements.

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

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

    The preceding criteria are not mutually exclusive. The objective is to ensure that one engagement is selected for each partner and one engagement is selected from

each area of service performed by the firm listed in item (a). Therefore, one of every type of engagement that a partner, or individual if not a partner, responsible for the issuance of the reports listed in item (a) performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in item (a) performed by the firm are covered.

B. Other Documents and Information That Should Be Obtained

The review captain should obtain the required representations submitted by the firm (see standards par. 5(f)) and should obtain the firm's prior peer review report, the letter response, if applicable, and the letter accepting those documents, all from the reviewed firm. The review captain should also obtain the prior FFC forms (from the administering entity, if the review captain's firm did not perform the prior review) (sec. 1000 par. .106).

For each engagement selected for review, the reviewed firm should submit the appropriate financial statements or information and the accountant's report, masking client identity if it desires, along with specified background information, representations about each engagement, and the firm's documentation required by applicable professional standards for each of these engagements. There is a presumption that all engagements otherwise subject to the peer review will be included in the scope of the review. However, in the rare situations when exclusions or other limitations on the scope of the review are being contemplated, a reviewer should carefully consider the implications of such exclusion. This includes communicating with the firm and the administering entity, the effect on the review, and on the ability of the reviewer to issue a peer review report (sec. 1000 par. .107).

C. Evaluation of Individual Engagements Submitted for Review Includes (sec. 1000 par. .108)

1. consideration of the financial statements or information and the related accountant's report on the engagements performed under SSARS and engagements performed under SSAEs.

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

3. review of all other documentation required by applicable professional standards on the engagements.

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 standards 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. Furthermore, although the revised standards allow for "reading the applicable documentation required by professional standards," and the *Statements on Quality Control Standards* are a part of the professional standards, it might appear that the revised 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.

Accordingly, an Engagement Review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice. The review captain's report does indicate, however, whether anything came to the review captain's attention that caused him or her to believe that the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects (see interpretations). The review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards and remind the firm of its obligation under professional standards to take appropriate actions (sec. 1000 par. .109).

III. Actual Review and Evaluation of Engagements and Other Documents

A. During the review, the review captain should use the applicable peer review materials issued by the board. This includes the review captain's summary, Matter for Further Consideration (MFC) form, Disposition of Matter for Further Consideration (DMFC) form, Finding for Further Consideration (FFC) form, and Engagement Review checklists.

B. Based on the answers obtained as a result of the review of engagements and other documents, the review captain must determine the relative importance of any "matters" discovered through a process that helps with that determination.

C. This determination process ultimately guides the review captain concerning the type of peer review report to issue and what to do with matters that were found during the evaluation.

D. Process of Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

1. A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports, and the adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A matter is documented on a Matter for Further Consideration (MFC) form (sec. 1000 par. .110*a*).

   For each matter, the review captain must determine if they should be elevated to a "finding" as discussed in (2) in the following text. A similar process follows for determining whether findings will be evaluated to a "deficiency" or possibly a "significant deficiency."

2. A *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant defi-

ciency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form (sec. 1000 par. .110*b*).

3. A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports or represents omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies* (sec. 1000 par. .110*c*).

4. A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review. When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail* (sec. 1000 par. .110*d*).

Exhibit 5-1 of this chapter illustrates the aggregation of these items, where those items are documented in the practice aids and how they might affect the type of report issued. Exhibit 5-1a contains some examples of the thought process a review captain might go through in the evaluation of items noted on the review and the determination of the type of report to issue. Another tool to assist you in understanding the peer review process is the model at exhibit 4-1a.

E. Examples of Matters and Findings

1. Professional judgment should be used in determining whether a matter(s) would become a finding on a particular engagement. This becomes more difficult when trying to assess matters that individually might not be elevated to a finding but, in aggregate, might be.

2. There are many types of matters and findings that review captains may identify. See section 6200 paragraph .52 for a list of common areas of noncompliance with applicable professional standards.

F. Examples of Deficiencies

1. Professional judgment should be used in determining whether findings become a deficiency on a particular engagement. This becomes more difficult when trying to assess matters that individually might not be elevated to a deficiency but, in aggregate, might be.

2. There are many types of findings that review captains may identify. See section 6200 paragraph .46 for a list of common areas of noncompliance with applicable professional standards. A report with a peer review rating of *pass with deficiencies* is issued when at least one, but not all, of the engagements submitted for review contain a deficiency.

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

G. Evaluation and Consideration of Deficiencies and Findings Included in the Firm's Previous Engagement Review

The report on an Engagement Review should specifically identify any deficiencies or significant deficiencies [fn17] (included in the report with a peer review rating of *pass with deficiencies* or *fail*) any that were also made in the report in the firm's previous peer review. However, if the specific types of reporting, presentation, disclosure, or documentation deficiencies or significant deficiencies are not substantially the same on the current review as on the prior review, the deficiencies or significant deficiencies would not be considered a repeat.

FFC forms should also identify any findings that are substantially the same as noted on a FFC form in the prior peer review as it relates to reporting, presentation, disclosure, or documentation.

The preceding also applies when the deficiency or significant deficiency noted during the current review was substantially the same as was noted on a FFC form in the prior review.

1. When repeat deficiencies are noted as occurring for the third time or more, the text should include a sentence that the deficiency has occurred on previous reviews.

2. A RAB's conclusions and actions regarding the repeat deficiencies could be affected by several factors including the reason for the repeat deficiencies; the firm's response to the repeat deficiencies; and whether corrective action was requested on the prior review, type of action requested, and whether it was completed. See section VI.

IV. Types and Consideration of Reports to Issue in an Engagement Review

A. Report Rating—Pass

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

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[fn 17] See footnote 7.

or recommendations. In the event of a scope limitation, a report with a peer review rating of *pass* (with a scope limitation) is issued (sec. 1000 par. .117).

Circumstances that ordinarily would support the issuance of a report with a rating of *pass* include instances in which there are no deficiencies or significant deficiencies identified on any of the engagements reviewed.

B. Report Rating—*Pass With Deficiencies*

A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects <u>except for</u> the deficiencies that are described in the report. The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards. A report with a peer review rating of *pass with deficiencies* is issued when at least one, but not all, of the engagements submitted for review contain a deficiency. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies* (with a scope limitation) is issued (sec. 1000 par. .118).

C. Report Rating—*Fail*

A report with a peer review rating of *fail* is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *fail* is issued when deficiencies are evident on all of the engagements submitted for review. The review captain should not expand scope beyond the original selection of engagements in an effort to change the conclusion from a peer review rating of *fail* in these circumstances. In the event of a scope limitation, a report with a peer review rating of *fail* (with a scope limitation) is issued (sec. 1000 par. .119).

V. Acceptance of Engagement Reviews by Technical Reviewer

A. The technical reviewer should be delegated the authority from the committee to accept Engagement Reviews in certain circumstances (sec. 1000 par. .137).

B. Engagement Reviews that do not require committee consideration are required to be accepted by the technical reviewer within 60 days of receipt of the working papers and report from the review captain. If the committee does not delegate the authority to the technical reviewer to accept Engagement Reviews under the specific criteria indicated previously, the review is required to be presented to the RAB within 60 days of receipt of the working papers and report from the review captain (sec. 1000 par. .138).

C. Circumstances in Which a Technical Reviewer May Accept Engagement Reviews

1. 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 both of the following (Interpretation No. 137-1):

    - Any matters documented (or which should have been documented) on MFC forms only relate to compilations performed under SSARS, **and** do not rise to the level of a finding, deficiency, or significant deficiency,

    - 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.

2. 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. (Interpretation No. 137-1)

D. Procedures for Committee or RAB Acknowledgement of Engagement Reviews Accepted by the Technical Reviewer

A list of Engagement Reviews meeting the criteria, as stated previously in number 1, which have been accepted by the technical reviewer should be prepared and sent to the committee or RAB members, along with recommendations for reviewer performance feedback, if any. Although technical reviewers may make reviewer performance feedback recommendations to the committee or RAB, it is the responsibility of the committee to evaluate the reviewer's performance to help ensure that reviewers perform and report on peer reviews in accordance with the standards. See chapter 8.

E. Acceptance and Completion Date of Reviews Accepted by the Technical Reviewer on Behalf of the Committee or RAB

The review acceptance date and completion date is the date that the technical reviewer completes the review of the peer review documents and determines that (1) there are no matters documented (or which should have been documented) on MFC forms relating to engagements other than compilations performed under SSARS and such matters and do not rise to the level of a finding, deficiency, or significant deficiency and (2) there are no other issues with the review warranting committee or RAB consideration or action. The acceptance date (also the completion date) is noted on the letter from the administering entity to the reviewed firm.

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

The guidance in this chapter is to assist RABs in determining when and what type of corrective action(s) or implementation plans a firm should be required to take given a set of circumstances on an Engagement Review. Chapter 6 contains guidance for monitoring corrective action(s) or implementation plans, determining when to require additional corrective actions or implementation plans when actions previously requested of the firm have been completed, and how to proceed when a firm cannot complete the required corrective action(s) or implementation plans or refuses to cooperate.

The decision of whether to require corrective action(s) or implementation plans and deciding on what actions or procedures are appropriate is a matter of professional judgment that each RAB makes based on the applicable facts and circumstances. RABs should consider this guidance but may need to consider alternative corrective actions more suited for the situation.

The RAB should not instruct reviewed firms to perform omitted procedures, to reissue accounting reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. Firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are appropriate, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

If the firm determines that omitted procedures will be performed, that notifications will be made to those relying on the reports, or that financial statements will be revised or reissued prior to the peer reviewer's conclusion on the engagement or conclusion on the peer review, it is not expected that these actions will be completed before the peer review concludes. However, the firm's response should include its intention to perform these steps, if known. The RAB may require follow up action to evaluate the firm's follow through on the intended or alternative steps taken.

When the reviewer identifies an engagement not performed or reported on in conformity with applicable professional standards in all material respects, the review captain should thoroughly evaluate the firm's considerations and decision with due consideration of applicable professional standards to determine whether a corrective action to follow up on the engagement should be suggested. The firm should include the summary of its considerations and conclusions in its response, generally documented on a MFC form.

If the review captain agrees with the reviewed firm's response and appropriately documented considerations related to such an engagement and the firm states in its response that it intends to complete omitted procedures, to reissue the accountant's report, or to have revisions made to previously issued financial statements, the RAB should consider whether the firm's response is genuine, comprehensive, and feasible. The RAB also should ordinarily consider accepting the peer review provided that the reviewed firm agrees to submit evidence to a party acceptable to the RAB of performing and documenting the omitted

procedures or of reissuing the report, if appropriate. Identification of an engagement not performed or reported on in conformity with professional standards in all material respects results in a deficiency in the Engagement Review report for which the RAB should ordinarily require some type of remedial or corrective action as a condition of acceptance.

When the RAB deems that the reviewed firm's response is not sufficient (not genuine, comprehensive, and feasible) or has substantial reason to challenge the firm's documented considerations and the reviewer's assessment of the firm's response to address an engagement not performed or reported on in conformity with professional standards in all material respects, the RAB should defer acceptance of the review pending revisions or additional information to resolve the matter. If the RAB determines that the firm has not properly considered applicable professional standards to address such an engagement, the firm's actions may affect other corrective actions or implementation plans that the committee may impose, or they may cause the RAB to not accept the peer review report and consider that the firm is not cooperating with the peer review program.

A. In an effort to promote consistency among the various report acceptance bodies, the following situations should be considered before deciding upon certain corrective actions on Engagement Reviews.

1. Engagement Review Report Rating—Pass

   A RAB should not require <u>any</u> remedial corrective action(s) as a condition of acceptance of an Engagement Review with a report rating of pass. However, there may be instances where an implementation plan is required as a result of FFC forms. See item (A.4) in the following text for treatment of FFC forms, if any.

2. Engagement Review Report Rating—*Pass With Deficiencies*

   a. When a firm receives a report with a rating of *pass with deficiencies*, the RAB ordinarily should require some type of remedial or corrective action as a condition of acceptance. In addition, there may be instances where an implementations plan is required as a result of FFC forms. See item (A.4) in the following text for treatment of FFC forms, if any.

   b. The type of action required would depend on the nature of the deficiencies. See suggested actions in exhibit 5-2.

   (1) When a firm receives a report with a rating of *pass with deficiencies* on its Engagement Review, but (*a*) there are no reasons to suspect the firm does not have an understanding of GAAP, SSARS, and the SSAEs and (*b*) its responses to the matters described in the report are comprehensive, genuine, and feasible, the RAB ordinarily should require the firm to submit a copy of a subsequent report and accompanying financial statements to the review captain for review to show that the deficiencies have been corrected. If the firm's responses are not comprehensive, genuine, and feasible, the report acceptance body should require the firm to submit a revised letter of response.

(2) If the RAB believes that the deficiency(s) were caused by a general lack of knowledge of accounting or reporting matters, or both, the report acceptance body ordinarily should require that the individuals within the firm obtain specified types and amounts of CPE and monitor CPE completion. The RAB also might want to require the firm to submit a copy of a report issued subsequent to the peer review, along with the accompanying financial statements or documentation, or both, required by professional standards showing that deficiencies identified in the peer review have been corrected.

(3) The RAB may choose to require the firm allow the review captain or someone acceptable to the RAB firm to review completion of its intended remedial actions outlined in its letter of response or evaluate appropriateness of alternative actions.

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

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

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

3. Engagement Review Report Rating—*Fail*

a. When a firm receives a report with a rating of *fail*, the RAB should consider the nature of the significant deficiencies and evaluate what actions should be taken. The RAB should require some type of remedial, corrective action as a condition of acceptance. In addition, there may be instances where an implementations plan is required as a result of FFCs. See item (A.4) in the following text for treatment of FFC forms, if any.

b. The following are suggestions for possible remedial corrective actions. Also, see suggested actions in exhibit 5-2.

(1) Require one or more individuals in the firm to take specified types and amounts of continuing professional education (CPE), or submit a copy of a report issued subsequent to the peer review, along with the accompanying

financial statements, documentation, or both, required by professional standards. This information may be submitted to the review captain after individuals have completed the specified CPE when the deficiencies identified are related to one or two specific areas of accounting or reporting; and the review captain will report the results of his or her review.

(2) Require one or more individuals in the firm to take specified types and amounts of CPE and (*a*) require the firm to engage an outside party acceptable to the RAB to perform pre-issuance reviews of certain types or portions of engagements and (*b*) require a periodic report from the outside party to the RAB on the firm's progress.

(3) The RAB may choose to permit, but not require the firm to undergo an accelerated peer review in lieu of other remedial or corrective actions considered necessary in the circumstances.

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

4. Engagement Review Finding for Further Consideration Form(s)

a. A RAB ordinarily would not require an implementation plan or *any* related remedial corrective action(s) of a firm when its responses to findings addressed on FFC form(s) are comprehensive, genuine, and feasible. RABs may not be able to determine if responses are comprehensive, genuine, and feasible if the reviewed firm does not describe the firm's actions taken or planned to remediate findings, the timing of the implementation and, if applicable, additional procedures to ensure the finding is not repeated in the future. If the responses are not comprehensive, genuine, and feasible, the RAB should have the firm revise its response. If the RAB determines, as part of its deliberations regarding the peer review, that an implementation plan in addition to the plan described by the firm in its responses on the FFC form are warranted, the firm will be required to evidence its agreement in writing (sec. 1000 par. .143).

For engagement reviews, implementation plans requiring the involvement of an outside party are not appropriate. A matter on an engagement review resulting in an engagement not performed or reported on in accordance with professional standards in all material respects should be reported as a deficiency. Accordingly, if a RAB believes that involvement of an outside party is necessary to correct a finding, it is more likely that the finding should be reported as a deficiency in the report. Implementation plans are only appropriate on engagement reviews for repeat findings and firm license issues. In these instances, appropriate implementation plans would be the submission of the firm's monitoring report to the RAB, CPE, or submission of proof of a valid firm license.

b. When a firm receives a finding on a FFC form, which is determined to be a repeat, there is a question about whether some further action is required. In making this decision, the RAB must first look to see whether the firm made a genuine effort to correct the situation from the prior review(s).

(1) If it is apparent that the firm attempted to correct the repeated finding, and the firm's response on the FFC form is specific on how the situation will be corrected, the RAB may decide that no additional implementation plan is necessary.

(2) If, on the other hand, it appears that the firm did not make a concerted effort to correct the repeated finding or if the RAB does not believe that the firm is committed to correct the situation, then it may require an implementation plan. The implementation plan could include such actions as requiring specified CPE or requiring the firm to submit a copy of an internal monitoring or inspection report to the RAB for review. The monitoring and inspection procedures should place particular emphasis on the findings reported on the FFC form, and the actions outlined in the firm's response. As noted previously, involvement of an outside party is not acceptable in an engagement review. See the allowable plans in exhibit 5-2.

(3) The guidance for allowable plans as discussed in exhibit 5-2 must be followed, even in instances when the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required CPE. For example, the RAB may determine that more than eight hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm's monitoring report to the RAB.

c. The RAB should establish a due date when the implementation plan should be completed. The implementation plan should be completed as soon as reasonably possible; however, all known and relevant facts and circumstances should be considered (such as the timing of CPE program presentations or availability).

B. Communication of Corrective Action(s) or Implementation Plans to the Firm

1. When a decision is made to require corrective action(s) or implementation plans, the RAB or its designee should consider a need to call the firm before it sends a letter describing the required actions or plans in order to explain its decision and to eliminate the surprise. For remedial, corrective actions, the firm will be required (*a*) to evidence its agreement to perform these corrective action(s) in writing before the report is accepted and (*b*) to complete the action(s) as a condition of cooperation with the administering entity and the board. For implementation plans, the firm will be required (*a*) to evidence its

agreement to perform and complete the implementation plan (*b*) in writing, as a condition of cooperation with the administering entity and the board.

2. When corrective action(s) or implementation plans require a service from an outside party, such as an external inspection or other monitoring assistance, or a pre-issuance review and the firm wants to use the team captain or team member who performed the firm's peer review, independence rules must be considered. A RAB member or the other designated party should consider a need to discuss the following guidance with the firm or the review team captain, or both, or other outside party performing the corrective action, as applicable, to ensure that its ramifications are clearly understood.

   In the Interpretation titled "Independence, Integrity, and Objectivity" of the revised *Standards*, independence would be considered impaired for purposes of being able to perform a firm's peer review (whether as a team captain, review captain, or team member) for anyone also performing monitoring (for instance, engagement quality control review, post-issuance review, or inspection procedures), a consulting review, a quality control document review, preliminary quality control procedures review or pre-issuance review on an accounting or auditing engagement for the firm in the year prior to the current peer review year end. This would also apply if another individual from the reviewer's firm was performing such services. The only exception is if those services were performed for the year immediately following the previous peer review year end. Thus, performing those services in the year preceding or during the year of the next peer review would impair independence for peer review purposes.

Exhibit 5-1

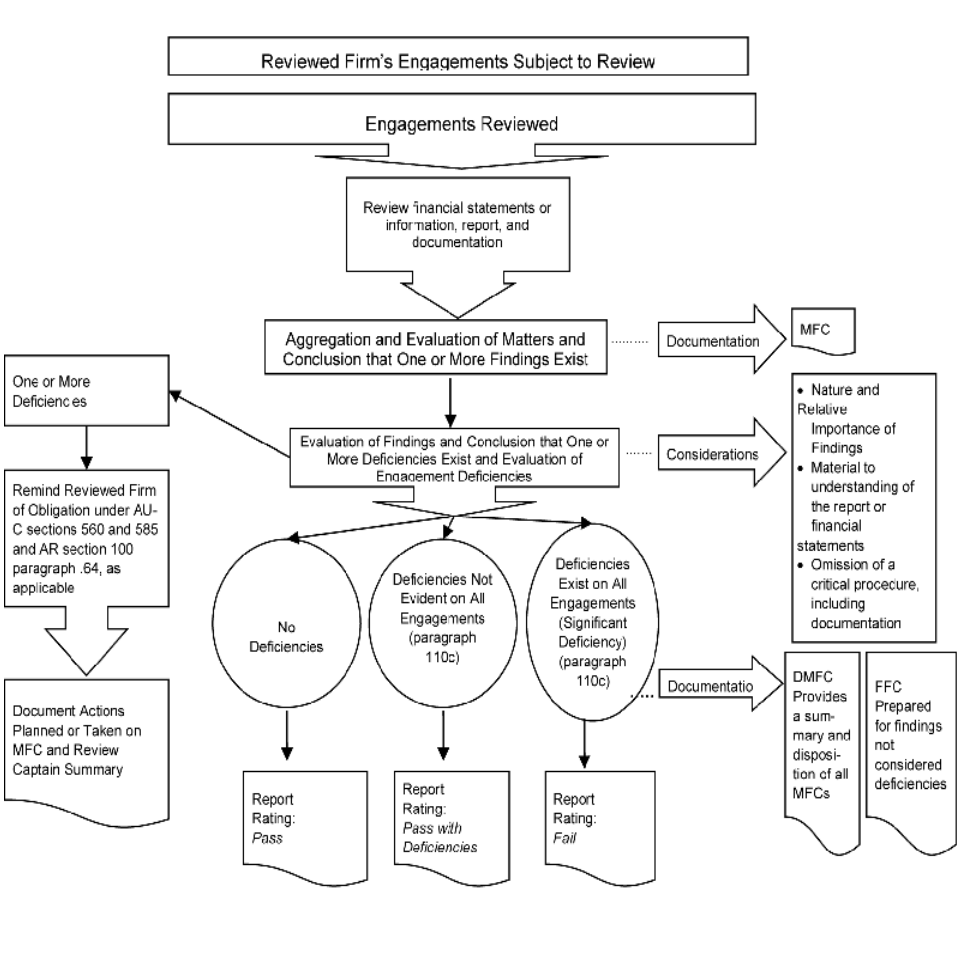

Exhibit 5-1a — Aggregation and Evaluation of Matters on a Single Engagement in an Engagement Review

EXAMPLE 1

Two partners who perform reviews and compilations.

Engagement 1—The review captain noted the following matters as a result of reviewing an omit disclosure compilation engagement from Partner 1 and documented them in MFCs:

- There was a numerical error in the financial statements that was immaterial and not deemed to be misleading (MFC 1).
- The titles on the financial statements were not consistent with the report issued but the applicable financial reporting framework was readily determinable (MFC 2).
- There was a failure to refer to the accountant's report on each page of the financial statements (MFC 3).

In evaluating these matters, the review captain considered whether these either individually or in aggregate rose to a "finding." Because a *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant's reports submitted for review, or the procedures performed (including related documentation) not being performed or reported on in conformity with the requirements of applicable professional standards, the review captain determined that the first item did not rise to this level. However, the review captain concluded that the two other matters did rise to this level. MFC 2 and MFC 3 are now being considered findings.

The next step for the review captain is determining whether the two findings rose to the level of a deficiency. Because a *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports, or represents omission of a critical procedure (including documentation) required by applicable professional standards, the review captain determined that neither of the two findings met this threshold and, therefore, concluded there were no deficiencies on this engagement.

Engagement 2—The review captain noted the following matters as a result of reviewing a full disclosure compilation engagement from Partner 2 and documented them in MFCs:

- The titles on the financial statements were not consistent with the report issued, but the applicable financial reporting framework was readily determinable (MFC 4).
- There was a failure to refer to the accountant's report on each page of the financial statements (MFC 5).
- The financial statements show the reporting entity used an inappropriate method of revenue recognition MFC 6.

In evaluating these matters, the review captain considered whether these either individually or in aggregate rose to a "finding." Because a *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant's reports submitted for review, or the procedures performed including related documentation) not being performed or reported on in conformity with the requirements of applicable professional standards, the review captain determined that each of these matters rose to this level. So these three matters are now being considered *findings*.

The next step for the review captain is determining whether the three findings rose to the level of a deficiency. Because a *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports, or represents omission of a critical procedure (including documentation) required by applicable professional standards, the review captain determined that the first two findings did not meet this threshold even though they were the same findings as noted on engagement 1 but did conclude that using an inappropriate method of revenue recognition did meet the threshold for being a deficiency.

Engagement 3—The review captain noted the following matters as a result of reviewing a review engagement from Partner 1 and documented them in MFCs:

- There was a failure to indicate the level of responsibility in the report taken for supplemental information that was presented with the financial statements (MFC 7).

- The report indicates the applicable financial reporting framework presented (for example, the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities [FRF for SMEs accounting framework™]), but the financial statements and the report include titles generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP (MFC 8).

Using the same steps previously mentioned, the review captain determined that each of these rose to the level of findings, but were not individually or in the aggregate a deficiency.

Review Captain's Evaluation of the Three Engagements Reviewed

- *Two of the engagements had two findings each.*

- One engagement had a deficiency (and also had two findings).

In determining the type of report to issue on an Engagement Review

- The review captain cannot issue a report with a rating of *pass* because by definition, such a report does not have deficiencies.

- The review captain would not consider issuing a report with a rating of *fail* because consideration is only given to issuing a report with a rating of *fail* when deficiencies exist on all engagements.

- Therefore, because the review captain identified one engagement (of the three reviewed) that had a deficiency, the review captain issued a report with a rating of *pass with deficiencies*, and the deficiency discussed the inappropriate method of revenue recognition.

It should be further noted that the review captain prepared 8 MFCs and used the DMFC to articulate that MFC 1 was appropriately disposed of; MFCs 2 and 4 resulted in FFC 1 related to proper titles of financial statements presented; MFCs 3 and 5 resulted in FFC 2 relating to referring to the accountant's report on each page of the financial statements, and MFCs 7 and 8 resulted in FFC 3 for reporting matters. MFC 6 was identified as resulting in a deficiency in the report.

EXAMPLE 2

Sole practitioner who only performs 12 omit disclosure compilation engagements for the same client.

The review captain selected two engagements to review: an interim and year-end compilation, and the only matters identified were that on each engagement, the accountant's report did not note that management elected to omit substantially all disclosures.

Review Captain's Evaluation of the Two Engagements Reviewed

The review captain determined that based on the definition of a deficiency (and the guidance provided by the board on this particular departure from professional standards that each engagement would be deemed as having a deficiency. Accordingly, the DMFC should indicate that each MFC was addressed in the report's deficiency.

In determining the type of report to issue on an Engagement Review

The review captain understood that a report with a rating of *pass* is not permitted in an Engagement Review where a deficiency is identified on any engagement review. Ordinarily when each engagement reviewed has a deficiency, a report with a rating of *fail* is appropriate. So in this firm's review, where each engagement had a deficiency, a report with a rating of *fail* is appropriate even though the deficiencies were identical, and there were no others.

EXAMPLE 3

Two partners, where one performs 12 omit disclosure compilation engagements for the same client, and the other performs 1 omit disclosure compilation engagement.

The review captain selected two engagements to review: an interim compilation from the first partner and second partner's only compilation. The only matters identified were that on each engagement, the accountant's report did not note that management elected to omit substantially all disclosures, and on one engagement, the applicable financial reporting framework was not disclosed in the accountant's report or financial statements and was not easily determinable.

Review Captain's Evaluation of the Two Engagements Reviewed

The review captain determined that based on the definition of a deficiency (and the guidance provided by the board) on these particular departures from professional standards that each engagement would be deemed as having a deficiency. Accordingly, the DMFC should indicate that each MFC was addressed in the report's deficiency).

In determining the type of report to issue on an Engagement Review

The review captain understood that a report with a rating of *pass* is not permitted in an Engagement Review, where a deficiency is identified on any of its engagements reviewed. Ordinarily, when each engagement reviewed has a deficiency, a report with a rating of *fail* is appropriate.

In this review, there is a deficiency on one engagement related to the applicable financial reporting framework issue. In addition, each engagement also had a deficiency related to the accountant's reports, not noting that management elected to omit substantially all disclosures.

Therefore, the review captain appropriately concluded that a report with a rating of *fail* should be issued.

Furthermore, the report should identify the deficiencies (or deficiency, if the matters are combined) as significant deficiencies. The only time there will be significant deficiencies on an Engagement Review is AFTER the determination is made that a report with a rating of *fail* is issued. Then, all of the deficiencies are referred to as *significant deficiencies*.

EXAMPLE 4

Sole practitioner performs one review engagement.

The review captain noted on the firm's only engagement that the reporting entity's accounts receivable and revenue balances seemed to be extremely high and not comparable to balances of the prior period's financial statements presented in comparative form. The analytical procedures documented by the firm did not adequately explain the variance. The review captain determined that this is a measurement issue and, as allowed by the standards, asked the reviewed firm for documentation supporting unusual or atypical relationships.

The firm was unable to provide a plausible explanation and had no documentation of its inquiries or analytical procedures related to the obvious non-comparability of two important components of the financial statements. As a result, the review captain determined that this represented the omission of a critical procedure required by applicable professional standards.

Therefore, the review captain determined that this engagement met the threshold for a deficiency. Furthermore, because the firm's only engagement resulted in a deficiency, a report with rating of *fail* should be issued. As with all reports with rating of *fail*, all of the deficiencies (or, in this example, the only deficiency) are identified as significant deficiencies.

EXAMPLE 5

Two partner firm, and one leaves the practice after the peer review year end. Firm performs one review, one full disclosure compilation, and one omit disclosure compilation.

The review captain selected one engagement from all three levels of service. Partner A performed the review and full disclosure compilation. Partner B performed the omit disclosure compilation. These were all initial engagements, and no subsequent engagements have been performed at the time of the peer review.

The review captain noted that there were no matters identified on either of Partner A's engagements. However, Partner A notified the review captain after the engagement selection that Partner B, who is not an AICPA member, left the practice, moved to a state that doesn't require peer review, and "took" the omit disclosure compilation client with him. Partner A also indicated that he has no working papers or a copy of the compilation report and the related financial statements, and phone calls and emails to the client and former partner have been not been returned.

With no matters noted on either of the two engagements reviewed, the review captain concluded that the issuance of a report with a rating of *pass* would be appropriate unless that conclusion is affected by the former owner's absence. The review captain called the administering entity to discuss the effect of not being able to review the omit disclosure compilation. The administering entity's representative appropriately determined that because the engagement was required to be selected to cover this level of service, and even though it was unavailable for selection for reasons beyond the control of the firm, that a scope limitation report was required.

The review captain appropriately issued a peer review report with a rating of *pass with a scope limitation*. In addition, when a scope limitation report is issued, the report must include an additional paragraph before the last paragraph describing the relationship of the excluded engagement to the firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagement(s) excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review.

Therefore, the review captain (who is a sole practitioner) added the following paragraph to the *pass* with scope limitation report:

"In performing my review, the firm notified me that I would be unable to review the engagement performed by a former partner who left the firm. Accordingly, I was unable to include in my review, as required, the firm's only omit disclosure compilation engagement, which was in the manufacturing industry and represented one-third of the number of the firm's engagements and 10 percent of its accounting hours subject to peer review during the year."

In addition, the review captain tailored the first sentence of the standard last paragraph to read as follows:

"Based on my review, except for any deficiencies that might have come to my attention had I been able to review the excluded engagement, nothing came to my attention…"

The reviewed firm is not required to issue a letter of response to a report with a rating of *pass with a scope limitation*. The type of report issued (pass, *pass with deficiencies*, and *fail*) is independent of whether there is a scope limitation (that is, the scope limitation is an add-on to the report rating that the review captain already determined to be appropriate). Scope limitations are only attributable to situations related to the review captain's inability to review engagements under certain circumstances and should not be confused with situations where the firm would be deemed as not cooperating and subject to fair procedures.

EXAMPLE 6

Sole practitioner performs reviews and full disclosure compilations.

The review captain selected two engagements from each level of service that the firm performs. The only matters identified (and documented in the three MFCs) were that a few disclosures were missing or incomplete in the areas of cash equivalents, concentration of credit risk, and details of related party transactions.

The review captain reviewed the firm's prior *pass with deficiency* peer review report and FFC forms and letter of response (Engagement Review). The reasons for the *pass with deficiency* report in the previous review related to the failure of the accountant's report to address omitted disclosures in the financial statements of a common interest realty association (CIRA) entity of funding for major repairs and replacements and the accounting policy for common property and restrictions on the use or disposition of common property on a CIRA engagement. The firm's letter of response indicated that as a part of system of quality control (even though the review was an Engagement Review), it would complete a CIRA disclosure checklist on all such engagements in the future.

The review captain needed to determine if the disclosure matters identified on the current reviews were repeats and determined that because the disclosure matters were all different than in the prior review, they should not be considered repeats.

The review captain was interested in the firm's response in the prior review as it related to a change in its system of quality control. The review captain was considering asking the firm for a copy of its current policies and procedures related to its system of quality control as they related to the use of disclosure checklists, as Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (AICPA, *Professional Standards*, QC sec. 10), requires a written quality control policies and procedures document. However, upon reviewing other guidance, the review captain determined that reviewing a firm's written quality control policies and procedures document is outside the scope of an Engagement Review.

The review captain then evaluated the disclosure matters in the three MFCs and considered whether each of these either individually or in aggregate rose to a "finding." Because a *finding* is one or more matters that the review captain has concluded results in financial statements or information, the related accountant's reports submitted for review, or the procedures performed (including related documentation) not being performed or reported on in conformity with the requirements of applicable professional standards, the review captain determined that the matters did rise to the level of a finding.

The next step for the review captain is determining whether the finding rose to the level of a deficiency. Because a *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports or represents omission of a critical procedure (including documentation) required by applicable professional standards, the review captain determined that the finding did not meet this threshold and, therefore, concluded there were no deficiencies on this engagement.

The review captain completed one FFC form where all of the disclosure findings were documented, along with the firm's response and signature by an authorized representative of the reviewed firm.

The review captain completed the DMFC by listing the three MFCs (1, 2, and 3), and showing that each was included in FFC 1. The review captain issued a report with a rating of *pass* and submitted the MFCs, the DMFC, and the FFC to the administering entity along with the report and other review working papers.

EXAMPLE 7

Sole practitioner refuses to submit a representation letter to the review captain.

The review captain reviewed the firm's engagements and noted that there were no matters, but he had not received the firm's representation letter yet. After several requests, the reviewed firm informed the review captain that it will not submit a representation letter to the review captain (even though the review captain discussed the requirement with the firm). The review is now 30 days past its due date, and the review captain planned to issue a report with a rating of *pass with a scope limitation* but called the administering entity first.

The administering entity appropriately instructed the review captain not to issue the report as planned. Refusal by a firm to provide a representation letter is not a scope limitation but rather a matter on non-cooperation. The administering entity called the reviewed firm to advise that it will begin sending the firm noncooperation letters related to the firm's failure to submit the required representation letter to the review captain. As a result, if the firm continues not to cooperate after fair procedures are followed, the firm's enrollment in the AICPA Peer Review Program may be terminated.

This example illustrates the importance of distinguishing matters of noncooperation from matters where engagements may need to be excluded from the peer review and, as a result, a scope limitation report is necessary.

Exhibit 5-2 — Suggested Actions and Allowable Plans

Engagement Review Peer Review Rating—*Pass With Deficiencies* or *Fail*

Suggested action(s) to be performed as soon as reasonably possible
• Require firm to submit a copy of a subsequent report and accompanying financial statements to review captain [fn 18] • Require members of the firm to take specified types and amounts of CPE • Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance and post-issuance reviews of certain types or portions of engagements and to report periodically to the RAB on the firm's progress • Require the firm to hire an outside party acceptable to the RAB to review the firm's remediation of an engagement not performed or reported on in conformity with professional standards in all material respects • Require the firm to hire an outside party acceptable to the RAB to review the firm's completion of its intended remedial actions outlined in its letter of response or evaluate the appropriateness of alternative actions

Finding for Further Consideration Form(s) [fn19]

[fn 18] RAB should allow flexibility and allow the firm to elect to have an accelerated review.

[fn 19] These are the only situations in which implementation plans are appropriate. Further, these are the only plans allowable. If the RAB believes a different implementation plan is necessary, what has been reported as a finding should more likely be reported as a deficiency in the report.

Finding	**Allowable plans to be performed as soon as reasonably possible**
Engagement(s) indicate the following: • Repeat findings [fn 20]	• Require members of the firm to take specified types and amounts of CPE • Require firm to submit monitoring report or inspection report to the report acceptance body
• Failure to possess applicable firm license(s)	• Submit proof of valid firm license(s)

Chapter 6

Monitoring Corrective Actions and Implementation Plans

Corrective Actions

I. Monitoring Process

The peer review committee's responsibilities include ensuring that all corrective actions related to deficiencies or significant deficiencies in the peer review report have been completed to the satisfaction of the committee. As such

A. procedures should be established to monitor corrective actions and the results of the application of corrective actions. Procedures should also include monitoring firms that have overdue corrective actions to ensure appropriate reminder and overdue letters are being generated and mailed timely.

[fn 20] The guidance for allowable plans as discussed previously in this section must be followed, even in instances when the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required CPE. For example, the RAB may determine that more than eight hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm's monitoring report to the RAB.

B. depending on the issues associated with the corrective actions, a technical reviewer may accept the corrective actions on behalf of the report acceptance body (RAB), if the peer review committee or RAB approves the technical reviewer to accept on their behalf. See chapter 2, section VI for a discussion of the technical reviewer's role and responsibilities regarding corrective actions.

C. if the corrective actions include an inspection or other monitoring procedures by an outside party, the outside party should issue a report that describes the procedures performed and the conclusions reached as a result of those procedures.

D. when the outside party's report is submitted to the RAB, the report should include the following elements:

- A description of the corrective actions required by the RAB.
- A description of the representations made by the reviewed firm regarding the corrective actions taken by the firm since its most recent peer review.
- A description of the procedures performed by the outside party.
- A summary of the results of the outside party's procedures, including a description of any representations made by the reviewed firm regarding further planned actions and the outside party's comments on the appropriateness of those actions. The outside party may consider recommending additional corrective actions if he or she believes the results reveal continued weaknesses in the reviewed firm's system of quality control.
- A statement that the letter or report is intended for limited distribution to the administering entity's peer review committee or its report acceptance body and the reviewed firm, and is not intended as a substitute or replacement for the peer review documents issued on the firm's peer review.
- Information enabling the RAB to evaluate whether the firm has improved.

E. when a team captain revisit is required, it is not necessary that the revisit be performed by the team captain. The RAB may direct the firm to use an individual other than the team captain, or the firm may request the revisit be performed by an individual other than the team captain. However, the individual performing the revisit must be acceptable to the RAB.

F. when cost is a concern, the firm should be reminded that costs associated with corrective actions are necessary to help the firm improve its quality control system or otherwise comply with professional standards. Firms are responsible for the costs of remedial, corrective actions in connection with their peer review.

II. Requiring Additional Corrective Actions

Guidance for determining when and what type of initial corrective action(s) to require as a result of a review is contained in chapter 4 and chapter 5 for System and Engagement Reviews, respectively.

Additional corrective actions are required when such actions previously requested of the firm have been completed, but the results indicate that the actions did not bring about the improvement expected (see Corrective Actions section IV, "Determining Noncooperation of Reviewed Firms")

The following are general guidelines that RABs should follow in determining whether additional actions are required:

A. Consideration should be given to the following factors in determining the need for additional corrective actions:

    1. The amount of improvements made by the firm, even if some findings remain. When a firm shows significant progress as a result of corrective actions, no additional actions should be required unless significant findings remain.

    2. Whether the firm can continue to make improvements on its own.

    3. The reason that improvement was not made as expected.

    4. The significance of current findings.

    5. The nature and size of the firm's practice, including the number of engagements and personnel and the types of engagements performed.

    6. Whether the firm's corrective actions were or are timely and appropriate.

B. Corrective actions that are initially required represent the best attempt to improve the firm based on the information available to the RAB at the time the review was considered. The results from completed corrective actions may provide more current information to the RAB on additional corrective actions that may now be more effective in correcting the deficiencies or significant deficiencies identified in the firm's review.

C. The following are illustrative examples that may be appropriate, but the circumstances on each review need to be evaluated on a case by case basis.

    1. When a team captain (or another individual acceptable to the RAB) revisit report indicates deficiencies or significant deficiencies still exist, but the RAB believes that performance has improved, the firm should be required to submit proof of actions taken to resolve deficiencies or significant deficiencies that remain.

    2. If an accelerated review was performed in lieu of other corrective actions and the report issued in connection with the accelerated review includes the same or similar deficiencies or significant deficiencies (that is, the firm received another report with a rating of *pass with deficiencies* or *fail*), (*a*) some or all of the firm's accounting and auditing staff should be required to complete specified types and amounts of continuing professional education (CPE), and (*b*) the firm should be directed to hire or engage an outside party to perform a pre-issuance review of specified engagements. The individual performing the

pre-issuance reviews should be required to issue a periodic report to the RAB on the firm's progress. The periodic reports should continue until the RAB concludes the firm's improvement is satisfactory.

3. When the results of an accelerated review indicate that deficiencies or significant deficiencies still exist (that is, the firm received a report with a rating of *pass with deficiencies* or *fail*), but the RAB, nonetheless, concludes some improvements have been made, the firm should be required to submit proof of actions taken to resolve deficiencies or significant deficiencies that remain.

4. When an outside party's inspection or monitoring report indicates that deficiencies or significant engagement deficiencies still exist, (*a*) some or all of the firm's accounting and auditing staff should be required to complete specified types and amounts of CPE and (*b*) the firm should be directed to hire or engage an outside party to perform a pre-issuance review of specified engagements. The individual performing the pre-issuance reviews should be required to issue a periodic report to the RAB on the firm's progress. The periodic reports should continue until the RAB concludes the firm's improvement is satisfactory.

5. When an inspection or monitoring report prepared internally indicates that matters identical or similar to those that led to deficiencies or significant engagement deficiencies in the firm's previous review still exist, and the RAB believes that there is an individual in the firm that does not understand generally accepted accounting principles (GAAP), generally accepted accounting standards (GAAS), generally accepted government auditing standards (GAGAS), Statements on Standards for Accounting and Review Services (SSARSs), or Statements on Standards for Attestation Engagements (SSAEs), that individual should be required to complete specified types and amounts of CPE. Additionally, the firm should submit its next inspection or monitoring report to determine if that individual's performance has improved.

6. When a firm continues to have a problem in a specific area or industry, a corrective action that focuses only on that area or industry, such as the review of a subsequent engagement(s), may be required. Also, a RAB should specifically tailor additional corrective action in response to results of the initially imposed corrective action or monitoring plan.

III. Guidance When a Corrective Action Should be Replaced or Waived

When a committee requests firms to complete corrective actions (action), it is expected that the firm will comply with the actions on a timely basis. In certain situations, the committee may need to determine if an action should be replaced or waived. The committee should review these situations on a case by case basis.

When considering replacing or waiving an action, committees should review the facts and circumstances surrounding the deficiencies or findings and the reason for the original action. It should first consider replacing an action rather than automatically waiving an action.

Corrective Action Should Generally Not be Waived

Firms should ordinarily be required to perform actions issued by the committee. Actions should ordinarily not be waived if the firm does not or cannot meet the due date of the action or for the reason that its next peer review will be due in the near future. In situations such as this, the firm is deemed as not cooperating with the program. The administering entity should follow procedures for overdue actions. Only when firms have situations similar to the examples discussed in the preceding sections should the committee consider waiving actions.

Consideration for Replacing Corrective Actions

Committees may request corrective actions that are industry or engagement type specific but address a firm's noncompliance with its system of quality control policies and procedures. The noncompliance may have been evident in more than one industry or engagement type. If the firm represents that it will no longer perform engagements in a specific industry but had deficiencies related to the same systemic cause detected in several engagements or industries, the committee should consider whether the action should still be completed or replaced with another corrective action.

For example, the only peer review deficiencies noted were related to industry specific matters on the firm's only two Employee Retirement Income Security Act (ERISA) engagements. The systemic cause did not extend to other aspects of the firm's practice. The RAB required the firm to submit to an outside party the next ERISA engagement for a pre-issuance review. The firm represents it is no longer performing ERISA engagements. Because the systemic cause did not extend to other aspects of the firm's practice, the RAB could waive the corrective action with the understanding that the firm will be required to comply with the action if they accept another ERISA engagement. If, however, the systemic cause extended to other aspects of the firm's practice due to the firm not complying with its quality control policies and procedures, the committee should consider replacing the corrective action with the requirement to submit a pre-issuance review of an audit engagement.

Consideration for Waiving Corrective Actions

Committees should waive actions only after it has considered all replacement options. There are few situations where it is appropriate to waive an action. Some of those examples follow (this is not an all-inclusive list):

1. The firm represents it is no longer performing the types of engagements that were the source of the deficiencies and the systemic cause did not extend to other aspects of the firm's practice. (see the following section)

2. The firm has given up its auditing and accounting practice and represents it has no plans to perform audit or accounting engagements in the future. If the firm represents that it will no longer perform audits but will continue the accounting practice, the committee should consider whether the corrective action should be replaced.

3. A partner leaves the firm and that partner was the sole source of the engagement or systemic deficiencies.

4. The firm has been sold and is no longer practicing and not licensed to practice. This does not include mergers or situations when a firm is no longer in existence and the partners have taken their respective clients to another firm.

Firm Represents No Longer Performing Certain Engagements

Committees may request firms to complete corrective actions or implementation plans that are industry or engagement-type specific when deficiencies or findings in that industry or specific engagement type are identified during the peer review. In situations where the firm represents that it will no longer perform engagements in that industry (such as single audit) or those types of engagements (such as audits), the action may be replaced or waived. In such cases, the firm must remit a written representation to the administering entity indicating that it is no longer performing or has no future plans to perform that type of engagement or engagements in that industry. The representation should include a listing of such engagements that were issued since the last peer review year end and it should be signed by the Managing or Quality Control partner. The representation should be submitted to the Committee (or Technical Reviewer if designated by the committee) for consideration. Based on this representation, the committee may decide to replace the original actions or waiver the actions completely.

Note: When a firm represents it will no longer perform certain types of engagements or engagements in a specific industry prior to the review being submitted for acceptance by the committee, the firm must include such representation in the letter of response.

Firm Performs Certain Engagements in the Future After Corrective Action Has Been Waived

There could be situations in which the firm accepts an engagement after providing a written representation that the firm is no longer performing or not planning to perform certain engagements (in a specific industry or of an engagement-type) in the future, and a corrective action was waived. In this situation, the firm is required to notify the administering entity upon acceptance of the engagement. Upon notification, the committee should consider whether the firm should perform any actions related to the recently accepted engagement. This would be determined on a case by case situation and based upon the facts and circumstances presented by the firm.

IV. Determining Noncooperation of Reviewed Firms

Firms (and individuals) enrolled in the program have the responsibility to cooperate with the peer reviewer, administering entity, and the board in all matters related to the peer review, including taking remedial, corrective actions as needed. (standards sec. 1000 par. .05h)

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

- failure to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the same peer review
- deficiencies that indicate the firm to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate

- receiving peer reviews with recurring deficiencies or significant deficiencies that are not corrected

- failure to receive a pass report after receiving a peer review rating of *pass with deficiencies* or *fail* and the firm received notification through a method providing proof of receipt that a consecutive peer review report rating of *pass with deficiencies* or *fail* may be considered a failure to cooperate with the administering entity

In addition, a board resolution states:

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

- not responding to inquiries.

- withholding information significant to the peer review, for instance but not limited to:

    i. 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.

    ii. 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 MFCs or FFCs timely.

- limiting access to offices, personnel or other.

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

- failing to timely file the report, and the response thereto related to its peer review, if applicable.

- failing to cooperate during oversight.

- failing to timely acknowledge and complete required corrective actions or implementation plans.

In most instances, if a firm is deemed not to be cooperating after the firm received notification through fair procedures, the administrator or the technical reviewer should advise the administer-

ing entity's RAB concerning this fact. The RAB should assess the facts and circumstances to determine whether there is a disagreement or if the firm is not cooperating. If there is a disagreement, the guidance in the RAB Handbook Chapter 7 should be followed to resolve the disagreement. If the RAB concludes that the firm is not cooperating, it should refer the matter to either the full peer review committee or the board (see Referral to Board discussion in this section). Documentation of the referral decision is required.

Failing to Improve on Consecutive Peer Reviews

Reviewed firms failing to improve on consecutive peer reviews as a result of not correcting deficiencies or significant deficiencies may be deemed as non-cooperating if it is notified 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 report rating of *pass with deficiencies* or *fail* may be considered a failure to cooperate with the administering entity. (Interpretation No. 5h-1)

Upon notification by the technical reviewer or administrator that the firm may not be cooperating due to failure to improve on consecutive peer reviews, a RAB must assess whether this should be deemed as noncooperation by the firm. This assessment involves careful evaluation of the facts and circumstances of each case. For instance:

First Report Was	Second Report Was	Recommended Action
Pass with Deficiencies	Pass	None
Pass with Deficiencies	Pass with Deficiencies	Assessment after results of corrective action(s)
Pass with Deficiencies	Fail	Assessment after results of corrective action(s); Presumption of referral
Fail	Pass	None
Fail	Pass with Deficiencies	Assessment after results of corrective action(s)
Fail	Fail	Assessment after results of corrective action(s); Presumption of referral
Three consecutive non-pass reports		Referral

Assessment

The assessment of the firm's attempted improvement to determine if the firm should be referred to the board should include reviewing the previous peer review documents including the report(s), LOR(s) and results from related corrective actions. The assessment should include, but not be limited to:

- Were the prescribed corrective actions appropriate to address the cause of the deficiencies or significant deficiencies and to allow the firm an opportunity demonstrate the effectiveness of the changes implemented? For example, CPE coupled with pre- or post-issuance review on subsequent engagements.

- Did the firm implement actions outside of those in the firm's letter of response or corrective actions to resolve deficiencies or significant deficiencies?

- Do actions taken by the firm appear genuine?

- Has the firm improved at all relative to the deficiencies or significant deficiencies identified?

- Are the deficiencies repetitive or substantially the same as before?

- Did the firm have numerous deficiencies in the previous peer review that were just replaced with different ones?

- Although the deficiencies met the criteria to include in the peer review report(s), what specifically is the nature of deficiencies compared to previous reviews?

- Was the firm afforded an appropriate amount of time to improve? For example, did an accelerated review limit time to correct deficiencies?

After careful review of the facts and circumstances, the firm should be referred to the board if it is evident the firm did not implement the actions in its letter(s) of response or complete corrective actions required to date, deficiencies in previous peer reviews are repeated in the current peer review, or the firm has not made attempts to appropriately design or comply with its system of quality control. See summary of administering entity responsibilities in this section for instances requiring further assessment by committee prior to referral to board.

When a firm has demonstrated improvement from the last peer review but other deficiencies were noted causing a consecutive pass with deficiencies or fail report, referral to the board for noncooperation may not be necessary. In such circumstances, it would appear that the firm had taken actions that corrected the prior reported deficiency. However, in doing so, it may have created new deficiencies. The firm is deemed to be cooperating because it took remedial actions to correct the original deficiencies. Instead of referring the firm to the board, the firm should be required to take corrective actions that will allow the firm to rectify the deficiency.

It is presumed that a firm that receives a report with a peer review rating of fail after having received either a peer review rating of pass with deficiencies or fail in its prior peer review will be referred to the board for noncooperation. This presumption may be overcome by circumstances evaluated during the assessment, such as evidence of aggressive actions by the firm to correct the deficiencies or significant deficiencies. For example, a RAB may decide not to refer a firm that incorporates outside party pre-issuance review of the type of engagements that led to the defi-

ciency or significant deficiency because, based upon early implementation of this change in quality control, the RAB anticipates a pass peer review report on the firm's next peer review. The specific nature of the significant deficiencies may also overcome the presumption of referral. For example, if a firm received two consecutive fail ratings in engagement reviews, the nature of the significant deficiencies and number of occurrences may result in the RAB deciding not to refer but requiring more targeted corrective actions.

If a firm receives three consecutive reports with a peer review rating of pass with deficiencies or fail, the administering entity shall refer the matter to the board for it to consider whether a hearing should be held for the firm's failure to cooperate with the administering entity.

Firms that voluntarily elect to cease performing certain engagement types or engagements in certain industries specifically related to the deficiencies or significant deficiencies in its most recent report with a peer review rating of pass with deficiencies or fail may notify the administering entity in writing or in the letter of response of this decision. In such cases, the committee may decide that the firm should not be referred to the board for noncooperation. There is no requirement to return such reviews to the original RAB that decided to refer the firm.

In each case, documentation of the RAB or committee assessment of the firm's attempted improvement should be submitted, along with other supporting documentation, upon referral to the board. The board will review this information when considering whether the firm's enrollment in the AICPA Peer Review Program should be terminated or whether some other action should be taken.

Referral to the Board

A summary of the administering entity responsibilities for referral follows:

Noncooperation Type[21], including but not limited to	**RAB**	**Peer Review Committee**
Limiting access to offices, personnel or other	Referral to board hearing panel must be supported by simple majority vote	No action required
• Failure to:	Referral to board hearing panel must be supported by simple ma-	No action required

[21] Noncooperation types as listed in interpretation 5h-1.

Noncooperation Type[21], including but not limited to	RAB	Peer Review Committee
• respond to inquiries • provide documentation • respond to MFCs or FFCs • facilitate arrangements for exit conference • timely file the report and/or response • cooperate during oversight • timely acknowledge and complete required corrective actions or implementation plans	jority vote	
Withholding information significant to the peer review	Referral to board hearing panel must be supported by simple majority vote	No action required
Failure to improve as evidenced by failing to receive a pass report rating subsequent to:		
• One peer review rating of pass with deficiencies or fail (2 total consecutive non-pass reports)	• Assessment (see above) Recommendation to full peer review committee must be supported by RAB simple majority vote	• Referral to board hearing panel must be supported by two-thirds vote of full peer review committee
• More than one consecutive peer review rating of pass with deficiencies or fail (3 or more consecutive non-pass reports)	• Assessment (see above) Referral to board hearing panel is presumptively mandatory; must be supported by RAB simple majority vote	• No action required
Failure to correct deficiencies or significant deficiencies after consecutive corrective actions	Recommendation to full peer review committee must be supported by RAB simple majority vote	Referral to board hearing panel must be supported by two-thirds vote of full peer review commit-

Noncooperation Type[21], including but not limited to	RAB	Peer Review Committee
on the same peer review		tee
Performance so seriously deficient that educational and remedial corrective actions or implementation plans are not adequate	Recommendation to full peer review committee must be supported by RAB simple majority vote	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee
Other instances of noncooperation where determination of sufficiency or appropriateness of firm actions warrant consideration by the administering entity's peer review committee	Recommendation to full peer review committee must be supported by RAB simple majority vote	Referral to board hearing panel must be supported by two-thirds vote of full peer review committee

Referral of a firm for hearing must include supporting documentation such as, but not limited to, warning letters issued to the firm, evidence of other correspondence whether verbal or written, notes or assessments from RAB or committee meetings (if applicable), and a timeline outlining the various communications.

Upon referral, the board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated or whether some other action should be taken. Firms whose enrollment in the AICPA Peer Review Program is terminated will have the right to appeal pursuant to fair procedures established by the board.

Implementation Plans

I. Monitoring Process

The peer review committee's responsibilities include ensuring that all implementation plans related to findings on FFC forms have been completed to the satisfaction of the committee. As such

A. procedures should be established to monitor implementation plans and the results of the application of implementation plans. Procedures should also include monitoring firms that have overdue implementation plans to ensure appropriate reminder and overdue letters are being generated and mailed timely.

B. depending on the issues associated with the implementation plans, a technical reviewer may accept the corrective actions on behalf of the RAB, if the peer review committee or RAB approves the technical reviewer to accept on their behalf. See chapter 2, section VI, for a discussion of the technical reviewer's role and responsibilities regarding corrective actions.

C. if the implementation plans involves an outside party, the outside party should issue a report that describes the procedures performed and the conclusions reached as a result of those procedures.

D. when the outside party's report is submitted to the RAB, the report should include the following elements:

- A description of the implementation plans required by the RAB
- A description of the representations made by the reviewed firm regarding the changes made by the firm since its most recent peer review
- A description of the procedures performed by the outside party
- A summary of the results of the outside party's procedures, including a description of any representations made by the reviewed firm regarding further planned actions and the outside party's comments on the appropriateness of those actions (The outside party may consider recommending additional implementation plans if he or she believes the results reveal continued weaknesses in the reviewed firm's system of quality control)
- A statement that the letter or report is intended for limited distribution to the administering entity's peer review committee or its RAB and the reviewed firm, and it is not intended as a substitute or replacement for the peer review documents issued on the firm's peer review
- Information enabling the RAB to evaluate whether the firm has improved

E. when cost is a concern, the firm should be reminded that costs associated with implementation plans are necessary to help the firm improve its quality control system or otherwise comply with professional standards. Firms are responsible for the costs of remedial, implementation plans in connection with their peer review.

II. Requiring Additional Implementation Plans

Guidance for determining when and what type of initial implementation plans to require as a result of a review is contained in chapter 4 and chapter 5 for system and engagement reviews, respectively.

Additional implementation plans are required when such actions previously requested of the firm have been completed, but the results indicate that the actions did not bring about the improvement expected.

The following are general guidelines that RABs should follow in determining whether additional plans are required:

A. Consideration should be given to the following factors in determining the need for additional implementation plans, including

1. The amount of improvements made by the firm. When a firm shows significant progress as a result of implementation plans, no additional plans should be required.
2. Whether the firm can continue to make improvements on its own.

3. The reason that improvement was not made as expected.

4. The significance of current findings.

5. The nature and size of the firm's practice, including the number of engagements and personnel and the types of engagements performed.

6. Whether the firm's implementation plans were or are timely and appropriate.

B. Implementation plans that are initially required represent the best attempt to improve the firm based on the information available to the RAB at the time the review was considered. The results from completed implementation plans may provide more current information to the RAB on additional implementation plans that may now be more effective in correcting the findings identified in the firm's review.

C. The following are illustrative examples that may be appropriate, but the circumstances on each review need to be evaluated on a case by case basis.

1. When an inspection or monitoring report prepared internally indicates that matters identical or similar to those that led to findings in the firm's previous review still exist, and the RAB believes that there is an individual in the firm that does not understand GAAP, GAAS, GAGAS, SSARSs, or SSAEs, that individual should be required to complete specified types and amounts of CPE. Additionally, the firm should submit its next inspection or monitoring report to determine if that individual's performance has improved.

2. When a firm continues to have a problem in a specific area or industry, an implementation plans that focuses only on that area or industry, such as the review of a subsequent engagement(s), may be required. An implementation plan of this nature is only appropriate in relation to engagements not performed or reported on in accordance with professional standards in all material respects identified in a system review. Also, a RAB should specifically tailor additional implementation plans in response to results of the initially imposed implementation plan.

III. Guidance When an Implementation Plan Should Be Replaced or Waived

When a committee requests firms to complete an implementation plan (plan), it is expected that the firm will comply with the actions or plan on a timely basis. In certain situations, the committee may need to determine if a plan should be replaced or waived. The committee should review these situations on a case-by-case basis.

When considering replacing or waiving a plan, committees should review the facts and circumstances surrounding the findings and the reason for the original plan. It should first consider replacing a plan rather than automatically waiving a plan.

<u>Implementation Plan Should Generally Not Be Waived</u>

Firms should ordinarily be required to perform plans issued by the committee. Plans should ordinarily not be waived if the firm does not or cannot meet the due date of the plan or for the reason that its next

peer review will be due in the near future. In situations such as this, the firm is deemed as not cooperating with the program. The administering entity should follow procedures for overdue plans. Only when firms have situations similar to the examples discussed in the preceding sections should the committee consider waiving plans.

Consideration for Replacing Implementation Plans

Committees may request implementation plans that are industry or engagement type specific but address a firm's noncompliance with its system of quality control policies and procedures. The noncompliance may have been evident in more than one industry or engagement type. If the firm represents that it will no longer perform engagements in a specific industry but had findings related to the same systemic cause detected in several engagements or industries, the committee should consider whether the plan should still be completed or replaced with another corrective plan.

For example, the only peer review findings noted were related to industry specific matters on the firm's only two Employee Retirement Income Security Act (ERISA) engagements. The engagements were deemed to be performed and reported on in accordance with professional standards in all material respects. The systemic cause did not extend to other aspects of the firm's practice. The RAB required the firm; personnel that performed ERISA engagements to take eight hours of ERISA CPE. The firm represents it is no longer performing ERISA engagements. Because the systemic cause did not extend to other aspects of the firm's practice, the RAB could waive the implementation plan with the understanding that the firm will be required to comply with the plan if they accept another ERISA engagement. If, however, the systemic cause extended to other aspects of the firm's practice due to the firm not complying with its quality control policies and procedures, the committee should consider replacing the implementation plan with the requirement to submit its next monitoring report to the RAB with a focus on the findings and firm response included on the FFC form.

Consideration for Waiving Implementation Plans

Committees should waive plans only after it has considered all replacement options. There are few situations when it is appropriate to waive a plan. Some examples of this include (this is not an all-inclusive list):

1. The firm represents it is no longer performing the types of engagements that were the source of the findings and the systemic cause did not extend to other aspects of the firm's practice. (See the section titled "Firm Represents No Longer Performing Certain Engagements" in this chapter.)

2. The firm has given up its auditing and accounting practice and represents it has no plans to perform audit or accounting engagements in the future. If the firm represents that it will no longer perform audits but will continue the accounting practice, the committee should consider whether the implementation plan should be replaced.

3. A partner leaves the firm and that partner was the sole source of the engagement or systemic findings.

4. The firm has been sold and is no longer practicing and not licensed to practice. This does not include mergers or situations when a firm is no longer in existence and the partners have taken their respective clients to another firm.

Firm Represents No Longer Performing Certain Engagements

Committees may request firms to complete implementation plans that are industry or engagement-type specific when findings in that industry or specific engagement type are identified during the peer review. In situations in which the firm represents that it will no longer perform engagements in that industry (such as single audit) or those types of engagements (such as audits), the plan may be replaced or waived. In such cases, the firm must remit a written representation to the administering entity indicating that it is no longer performing or has no future plans, or both, to perform that type of engagement or engagements in that industry. The representation should include a listing of such engagements that were issued since the last peer review year–end, and it should be signed by the managing or quality control partner. The representation should be submitted to the committee (or technical reviewer if designated by the committee) for consideration. Based on this representation, the committee may decide to replace the original plan or waiver the plan completely.

Note: When a firm represents it will no longer perform certain types of engagements or engagements in a specific industry prior to the review being submitted for acceptance by the committee, the firm must include such representation in the letter of response.

Firm Performs Certain Engagements in the Future After Implementation Plan Has Been Waived

There could be situations in which the firm accepts an engagement after providing a written representation that the firm is no longer performing or not planning to perform certain engagements (in a specific industry or of an engagement-type) in the future, and an implementation plan was waived. In this situation, the firm is required to notify the administering entity upon acceptance of the engagement. Upon notification, the committee should consider whether the firm should perform any plans related to the recently accepted engagement. This would be determined on a case by case situation and based upon the facts and circumstances presented by the firm.

IV. Determining Noncooperation of Reviewed Firms

Paragraph .05h of the standards notes that firms (and individuals) enrolled in the program have the responsibility to cooperate with the peer reviewer, administering entity, and the board in all matters related to the peer review, including following implementation plans as needed.

When a firm has an implementation plan imposed by the committee and fails to acknowledge its agreement to complete the implementation plan or fails to provide evidence documenting completion of the implementation plan, the firm could be deemed as not cooperating. Although agreeing to and completing such a plan is not tied to the acceptance of the peer review, if the firm fails to cooperate, the firm would be subject to fair procedures that could result in the firm's enrollment in the program being terminated.

In addition, AICPA Board Resolution states;

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

- not responding to inquiries.
- withholding information significant to the peer review, for instance but not limited to failing to discuss communications received by the reviewed firm relating to allegations or investigations in the conduct of accounting, auditing or attestation engagements from regulatory, monitoring or enforcement bodies.
- not providing documentation including but not limited to the representation letter, quality control documents, engagement working papers, all aspects of functional areas.
- not responding to MFCs or FFCs timely.
- limiting access to offices, personnel or other.
- not facilitating the arrangement for the exit conference on a timely basis.
- failing to timely file the report, and the response thereto related to its peer review, if applicable.
- failing to cooperate during oversight.
- failing to timely acknowledge and complete required corrective actions or implementation plans.

If a firm is deemed not to be cooperating, the RAB or the technical reviewer should advise the administering entity's peer review committee concerning this fact. In such circumstances, the administering entity's peer review committee should consider whether additional requirements for remedial or corrective actions are adequate responses to the situation. If, after the firm received notification through fair procedures, the committee deems that the firm is still not cooperating, it should refer the matter to the AICPA Peer Review Board with a recommendation that the AICPA Peer Review Board appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated or whether some other action should be taken. Such a referral should be supported by a two-thirds vote of the administering entity's full peer review committee.

If the peer review committee refers the firm to the board for noncooperation, it should remit its documented evaluation of the committee's considerations with other supporting documentation to the board. The board will review this information when considering whether the firm's enrollment in the AICPA Peer Review Program should be terminated or whether some other action should be taken.

Submission of a firm for termination must include supporting documentation such as, but not limited to, warning letters issued to the firm, information of other correspondence whether verbal or written, notes from committee meetings, and a timeline outlining the various communications. AICPA staff will submit a "Notice of Hearing" to the firm via certified mail. If a decision is

made by the hearing panel to terminate a firm's enrollment in the program, firms with AICPA members will have the right to appeal to the AICPA Joint Trial Board for a review of the hearing panel's findings. As to AICPA members, the fact that a firm's enrollment in the program has been terminated shall be published in such form and manner as the AICPA Council may prescribe (sec. 1000 par. .145). Firms without AICPA members will have the right to appeal pursuant to fair procedures established by the board for a review of the hearing panel's findings.

Chapter 7

Consultations and Disagreements

I. Consultations

Situations may arise during the course of the peer review in which it may be necessary for the peer reviewer or reviewed firm to consult with the administering entity and the administering entity to consult with AICPA staff. It is expected that questions arising from the peer reviewer or reviewed firm will be directed to the administering entity. The administering entity will, in turn, request assistance from AICPA staff, if needed. Situations requiring consultations may include but are not limited to the following:

<u>Consultations Between the Reviewer and Administering Entity</u>

A. The firm failed to perform an engagement or report in conformity with applicable professional standards in all material respects, and the review team determines the cause of the failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge. In some cases, however, the reviewer will wish to consult with the administering entity before reaching such a conclusion (sec. 1000 par. .83*d*).

B. The administering entity should be consulted whenever a team captain or review captain is considering whether a peer review report should be issued with an additional paragraph for a scope limitation due to a divestiture (Interpretation No. 5c-1).

C. A team captain or review captain is considering issuance of other than a *pass* report but is currently indecisive on the type of report to issue.

D. 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. 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. (Interpretation No. 24-1).

E. A team captain or review captain may encounter difficulties in complying with the standards, especially in selecting engagements or offices for review. If the team captain or review captain

finds that meeting all of the selection criteria for selection of engagements results in an inappropriate scope of the firm's accounting and auditing practice, the team captain should consult with the administering entity about the selection of engagements for review (Interpretation No. 62-1).

On a System Review, such criteria would be

1. significant risk areas have appropriate coverage (Interpretation No. 62-1a).

2. appropriate weight has been given to reviewing work performed by all or most supervisory personnel (Interpretation No. 62-1b).

3. 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 (Interpretation No. 62-1c).

F. 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, and there is no comparable 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 (Interpretation No. 62-1).

G. A reviewed firm is required 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. If a firm fails to discuss such communications with the reviewer, the reviewer should immediately consult with the 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 (Interpretation No. 181-1b-2).

<u>Consultations With AICPA Staff</u>

A. 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 (Interpretation No. 5c-1). Ordinarily, consultation of this nature is directed to the AICPA staff through the administering entity.

B. An administering entity may consult with the AICPA technical staff when

1. the firm has sold a portion of its non-attest practice to a non-CPA owned entity and has entered into service arrangements with that non-CPA owned entity to provide employees,

office space, equipment, and so forth for which the firm remits a percentage of its revenues or profits, and the team captain is unclear what to do.

2. the review team is considering whether to terminate the review because of, for example, a lack of cooperation by the reviewed firm.

3. the review team and the reviewed firm have a disagreement on a significant issue (see section II), including

    a. the type of report to be issued.

    b. deficiencies or significant deficiencies to include in the report or findings to include in the FFCs.

    c. whether action should be taken to prevent future reliance on a previously issued report.

    d. whether the reporting or performance (including documentation) on engagements was in conformity with applicable professional standards in all material respects.

4. the firm does not respond promptly to oral or written inquiries, which may constitute a failure to cooperate.

C. 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 legal counsel and should consult with appropriate AICPA staff (Interpretation No. 23-1).

D. Consultation with the National Peer Review Committee (PRC) administering a peer review of quality control materials (QCM) and continuing professional education (CPE) may occur when

1. there is the need to determine whether an accelerated peer review is warranted due to the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials (sec. 1000 par. .160).

2. a provider of QCM or CPE programs voluntarily elects to have a QCM or CPE review performed in accordance with the standards (sec. 1000 par. .161).

3. there are circumstances that may call for issuance of other than a *pass* report (sec. 1000 par. .174).

Consultations Between the Reviewed Firm and Administering Entity

Situations may arise during the course of the peer review in which it may be necessary for the reviewed firm to consult with the administering entity. Such situations may include the following:

A. If, after a discussion with the team captain or review captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter (sec. 1000 par. .100 and .126).

   If the reviewed firm still disagrees with one or more of the findings, deficiencies, or significant deficiencies, its response on either the FFC form or in the letter of response, as applicable, should describe the reasons for such disagreement.

B. The reviewed firm may contemplate excluding engagement(s) or aspects(s) of functional area(s) from the review. To reduce the potential for disagreement about such matters among the reviewed firm, the reviewer, and the administering entity, ordinarily, the firm should notify the team captain in a timely manner and submit a written statement to the administering entity prior to the commencement of the review, indicating (1) it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process, (2) the reasons for the exclusion, and (3) it is requesting a waiver for the exclusion (Interpretation No. 55-1).

II. Disagreements

Professional judgment often becomes a part of the peer review process, and each party has the right to challenge the other on an issue. It is important that personal preferences do not override professional standards. Equally important is the ability for the peer review process to recognize unreasonable professional judgments that lack support under professional standards. When a disagreement arises, the parties should consult with their administering entity to resolve the matter (sec. 1000 par. .93 and .116).

Disagreements may arise between the reviewer, reviewed firm, or administering entity (the disagreeing parties). Such disagreements may include, but are not limited to, (sec. 1000 par. .93, .100, and .116) the following:

- Type of peer review report to be issued to the reviewed firm
- Application of professional standards related to the review of particular engagements.
- The systemic cause for a deficiency or issues related to a design or compliance deficiency.
- Performance, reporting, or both, in conformity with applicable professional standards.
- Actions planned or taken by the firm, if any, that the review team does not believe are appropriate, (for example, if the reviewed firm believes that it can continue to support its opinion on a previously issued report, and the review team continues to believe that the firm will fail to reach appropriate conclusions in the application of professional standards).

Disagreements may also arise after the acceptance of a peer review, such as when the reviewed firm, reviewer, or committee disagree about whether peer review documents should be recalled. See chapter 3 of the *Report Acceptance Body Handbook*.

The objective of a disagreement panel is to assist the disagreeing parties in resolving issues. A disagreement panel may be requested by any disagreeing party.

A. Administering Entity Considerations in Handling Disagreements

An administering entity must establish written policies and procedures that describe the process for handling disagreements. The following is an outline of some of the procedures that should be included when establishing the policy and procedures.

1. After a discussion with the reviewer, if the reviewed firm disagrees with one or more of the review team's conclusions, the reviewed firm or review team should consult with the administering entity. The administering entity should attempt to resolve the disagreement through discussions with the technical reviewer or through oversight procedures at the administering entity's discretion. The reviewed firm and the reviewer should be aware that additional matters may be identified in this process and may result in findings or deficiencies.

2. After consultation with the administering entity, if the reviewed firm still disagrees with one or more of the review team's conclusions, the reviewed firm should describe the reasons for the disagreement in the MFC or FFC form(s) or the letter of response, whichever is applicable. The administering entity should also confirm that the disagreeing parties desire to have the matter referred to a disagreement panel prior to acceptance by the RAB.

3. The administering entity should refer the disagreement to a panel (see section III following) of peer review committee members ("disagreement panel") for consideration.

4. Once the panel has reached a decision, even if the firm and/or reviewer still disagree, the issue is considered resolved by the administering entity. A decision letter containing the actions required by each party to cooperate with the peer review committee will be sent to the firm and review team.

5. Any of the disagreeing parties may request an appeal of the decision of a disagreement panel relating to a deficiency or significant deficiency (report level issues, including corrective actions) by writing the board within 30 days of the decision as further described in section IV.

III. Disagreement Panels

Requests must be in writing and provide details of the basis for the positions, including any supporting documentation. The request should, at a minimum, contain the following key elements:

- the issue(s) to be resolved;
- the basis for the disagreeing party's positions (with reference to applicable professional standards); and

- a chronology of events with references to supporting documents, including relevant peer review documents.

The disagreement panel request and supporting documents must be submitted in writing to the administering entity via a method providing proof of receipt. Supporting documents may include, but not be limited to, peer review documents, team captain or review captain working papers; administrative and technical reviewer checklists; and oversight reports.

An expectation exists that all disagreeing parties are timely and responsive during the disagreement process. If a disagreeing party is not responsive and timely, the administering entity may follow the noncooperation guidance for timely and professional performance. Examples of noncooperation may include, but not be limited to, failure to respond to questions or submit documents or other information requested by the administering entity within the specified time.

An administering entity must arrange for a disagreement panel to occur within 60 days of receipt of the request for a disagreement panel.

- A panel should be formed of at least three peer review committee members who are independent of the disagreeing parties and not involved in the acceptance of the review. A reasonable effort should be made to assemble members with practice experience commensurate with the area or industry reviewed. The administering entity may use independent peer review committee members from another AICPA-approved administering entity.

- One member should serve as the panel chair.

- The administering entity will send a Notice of Teleconference at least 30 days in advance of the date of the teleconference to the disagreement panel members and disagreeing parties. The Notice will contain the date, time, and conference call number. The Notice will also be supported by the request for the disagreement panel and any supporting documentation submitted by the disagreeing parties.

- If new information relevant to the disagreement becomes available after the original submission of supporting documentation, it must be received by the panel at least 14 days prior to the teleconference to be considered. The date the new information became available must be substantiated. Copies of the information received by the administering entity will be forwarded to the panel members for review prior to the teleconference date.

- Each disagreeing party will have the right to participate during the teleconference in addition to providing written comments previously submitted for the panel's consideration.

- Each party will have the opportunity to make a presentation or respond to questions, or both. If either party is unable or chooses not to participate, the panel will consider his or her position based on written correspondence received prior to the teleconference.

- At the discretion of the panel, AICPA staff may participate in the teleconference to provide guidance related to peer review standards.

- At the teleconference, the panel should discuss the disagreement, including the supporting documentation submitted by the disagreeing parties, the basis for the disagreement, and how it should resolve the disagreement. The panel may ask any questions and request additional information from the disagreeing parties, the administering entity or AICPA staff to assist it in making its decision.

- The panel (and, at the discretion of the panel, AICPA staff) should then discuss the matter in executive session without the disagreeing parties. In some cases, the panel may recommend performing oversight on the peer review or engagement allowing the results of the oversight to assist them in resolving the disagreement. Additional matters may be identified in this process and may result in findings or deficiencies. The panel must reach a decision to resolve the disagreement. If the panel is unable to reach a decision during the executive session, it may adjourn the executive session to such later date as it shall determine.

- The decision of the panel should be provided to all parties immediately following the panel's decision. A written communication of the panel's decision should be sent within three business days.

IV. Appeals of Disagreement Panel Decisions

Any of the disagreeing parties may request an appeal of the decision of a disagreement panel relating to a deficiency or significant deficiency (report-level issues, including corrective actions) to the AICPA Peer Review Board. The request must explain why he or she believes a review of the disagreement panel's decision is warranted and provide support for the request by submitting evidence. At a minimum, the request must include the disagreement panel decision letter and the Notice of Teleconference with all supporting documents.

An AICPA Disagreement Review Panel ("review panel") formed by the board will review and consider the appeal or request for review and take further action pursuant to fair procedures that it has established.

The objective of the review panel is to assess the facts to determine whether the decision relating to a deficiency or significant deficiency (report-level issues, including corrective actions) of the earlier disagreement panel was appropriate and to provide procedural fairness by acting as an appeal mechanism.

Decisions by the review panel are final and not subject to any further review.

V. Noncooperation

By Reviewer

- A reviewer's failure to cooperate with the directives contained in the decision letter of a disagreement panel may be referred to a hearing panel of the AICPA Peer Review Board for failure to cooperate with the peer review committee.

- A reviewer's failure to cooperate with the directives contained within the decision letter of a review panel (for example, failure to submit documents or other information requested by the administering entity) within 30 days of the delivery of the letter will result in immediate removal from the list of qualified peer reviewers without the opportunity for further appeal.

By Reviewed Firm

- A reviewed firm's failure to cooperate with the directives contained in the decision letter of a disagreement panel may be referred to a hearing panel of the AICPA Peer Review Board for failure to cooperate with the peer review committee.

- A reviewed firm's failure to cooperate with the directives contained within the decision letter of a review panel (for example, by failing to respond to questions or submit documents or other information requested by the administering entity within the specified time), may result in a decision by the board to terminate the firm's enrollment in the program without further hearing.

  If the firm's enrollment is terminated, firms with AICPA members will have the right to appeal to the AICPA Joint Trial Board to consider the decision to terminate the firm's enrollment. As to AICPA members, the fact that a firm's enrollment in the program has been terminated shall be published in such form and manner as the AICPA Council may prescribe. Firms without AICPA members will have the right to appeal pursuant to fair procedures established by the board which will consider reversing the decision to terminate the firm's enrollment. If enrollment is terminated for a firm, whether or not there are AICPA members associated, the state board of accountancy issuing the firm's permit or license to practice shall be notified.

Noncooperation of either a reviewer or a reviewed firm not related to the specific decisions or directives contained in the decision letter of either a disagreement panel or a review panel may be referred to the board. The board may decide, pursuant to fair procedures that it has established, to appoint a hearing panel to consider the matter.

Chapter 8

Reviewer Qualifications, Responsibilities, and Performance

I. Overview

Individuals performing peer and quality control material (QCM) reviews (reviews) are required to possess various reviewer qualifications and to fulfill the responsibilities associated with being a team captain, review captain, or review team member (hereinafter, reviewer), which include, but are not limited to, timely and professional performance. This chapter highlights the qualifications, responsibilities, and expected performance of a reviewer, along with procedures when those are not met.

To become a reviewer, individuals need to possess certain qualifications, including reviewer training. Reviewers should continually monitor their qualifications to ensure that they remain qualified. Not pos-

sessing one or more of the qualifications may impede the reviewer's ability to continue to schedule and perform reviews. If a reviewer performs a review while not possessing all qualifications, this may lead to recall of the peer review report and deemed an egregious act.

Fulfilling all reviewer responsibilities is required as a matter of cooperation with the administering entity (AE), [fn 22] peer review committee (committee), AICPA Peer Review Board (board), [fn 23] and AICPA staff (staff).

The following outlines the guidance and procedures for administering entities, the board and staff when a reviewer does not possess reviewer qualifications; fails to submit documents or revisions in a timely manner; has performance deficiencies or findings; commits egregious acts; or has allegations, investigations, restrictions, or limitations placed upon him or her by various sources. It also outlines the fair procedures provided to a reviewer who is deemed as not cooperating, suspended, or restricted by the AE, board, or staff.

II. Reviewer Qualifications

A. Eligibility to Schedule and Perform Peer Reviews

The standards (sec. 1000 par. .31 and .34) discuss the minimum requirements that an individual must meet and maintain in order to fulfill reviewer qualifications. Those qualifications must be continually maintained in order to schedule and perform reviews. Situations may arise in which the AE, board, or staff determines that the reviewer currently may not possess one or more of the qualifications. Such situations may include, but are not limited to, the following:

- AICPA membership is no longer active or is suspended.
- Failure to maintain valid license(s) to practice as a CPA.
- Failure to be currently active in public practice as a partner of the firm or as a manager or person with equivalent supervisory responsibilities.
- Not presently involved in the accounting or auditing practice of a firm supervising one or more accounting or auditing engagements or carrying out a quality control function on a firm's accounting or auditing engagements.

[fn 22] Reference to administering entity (AE) in this guidance includes the AE staff, technical reviewer, or peer review committee.

[fn 23] The board has the discretion to delegate certain functions to staff. Delegations of functions from the board to staff are included in the AICPA Peer Review Board Policy and Procedure Manual.

- No longer associated with an enrolled firm (unless the reviewer has transitioned to a new firm and meets the requirements of Interpretation No. 31b-1).

- The reviewer's firm's peer review was not accepted timely, ordinarily within the last three years and six months. If a valid extension is approved by the AE, the review working papers and report should be submitted by the approved extended due date. In other words, there is an expectation that the working papers would be received by the AE within six months after the reviewer's firm's peer review year-end (see Interpretation No. 31c-1).

- The reviewer's firm's most recently accepted peer review resulted in a report rating of *pass with deficiencies* or *fail*.

- The reviewer has received communications from regulatory, monitoring, or enforcement bodies relating to limitations or restrictions on the reviewer or the reviewer's firm's right to practice or perform peer reviews.

When an individual does not possess all of the qualifications required by the standards, he or she would no longer be eligible to schedule or perform peer reviews in any AE. This includes being a team captain, review captain, team member, QCM reviewer, committee member, or RAB member. Once it is established that the qualification requirements are not met, the reviewer must not commence, continue to perform, or participate in a peer review until it has been determined that he or she possesses the qualifications.

B. Process When a Reviewer Does Not Possess Reviewer Qualifications

Reviewers have a responsibility to inform their administering entity when they no longer possess one or more qualification. In addition, staff will monitor certain of the preceding qualifications using PRIMA, public information, and communications from administering entities and others. If the reviewer does not possess one or more of the qualifications, the reviewer will be ineligible to schedule or perform reviews for all administering entities. (See section V for procedures when a reviewer has allegations or investigations outstanding against him or her or is limited or restricted by a regulatory, a monitoring, or an enforcement body.) Once the reviewer satisfactorily possesses all reviewer qualifications, he or she may continue to schedule and perform reviews (see 3. *Release of Ineligibility* following).

1. *Staff to Contact Reviewer Before Issuance of Letter of Ineligibility*

   If a reviewer does not possess any of the qualifications required by the standards, staff will contact the reviewer by phone or email (using the telephone number or email address on the reviewer's resume). The purpose of contacting the reviewer is to validate the qualification(s) that the reviewer may no longer possess. The reviewer is expected to respond to such communication within five business days. The reviewer's failure to respond to staff regarding the reviewer's qualifications will not delay the issuance of a suspension letter. Such communication and the results thereof should be documented.

It is important that the reviewer respond promptly to the staff's communication because it may result in the reviewer being able to continue to schedule and perform reviews. There may be situations in which the reviewer currently does not possess the qualifications but may be in the process of obtaining them. Staff will make this determination on a case-by-case basis.

For example, the reviewer's firm has not had its most recent peer review completed by the due date. If the peer review working papers have been submitted to the AE, and the peer review is scheduled to be presented for committee acceptance, it may be determined that the reviewer should not be suspended. However, using the same situation, if the reviewer's firm's peer review has not been scheduled and is past the due date, including valid extension, this would likely lead to the reviewer being suspended because the reviewer's firm does not possess the qualification to have its peer review accepted timely, ordinarily within the last three years and six months.

2. *Letter to Reviewer Indicating Ineligibility to Schedule or Perform Reviews*

After staff has communicated with the reviewer, and it has been confirmed that the reviewer does not currently possess all reviewer qualifications, staff will send an ineligibility letter to the reviewer.

<u>Ineligibility Letter</u>

Upon issuance of an ineligibility letter, the reviewer will be prohibited nationally from scheduling or performing reviews until the reviewer possesses all qualifications required for being a reviewer. The reviewer should either withdraw from or reschedule reviews that he or she was previously approved to perform. The reviewer will be instructed to contact any firm (or team captain, if applicable) for which a review is scheduled in the near future or for which the reviewer will not possess the qualifications by the commencement of the review. For such reviews, the reviewer should inform the firm (or team captain, if applicable) that it would need to find another qualified reviewer. This includes reviews which the reviewer was previously approved to participate, regardless of whether the review has commenced. It is at the reviewer's discretion to discuss with the firm the reason that he or she is not able to perform the firm's review. Reviewers should keep in mind that their ineligible status is not ordinarily a valid reason for which an AE would grant an extension of the reviewed firm's due date.

A copy of the ineligibility letter will be sent to all AEs where the reviewer has performed reviews during the past year or has reviews scheduled. For reviews that are scheduled in the near future or have commenced, the reviewer should contact the respective AE to discuss the resolution of each review. This should be done within five business days of receipt of the ineligibility letter.

The reviewer should submit evidence or contact the AE indicating that the firms have been notified that they need to find a new reviewer. If the reviewer fails to submit evidence or contact the AE within five business days of receipt of the ineligibility letter, the AE may contact the reviewed firms to inform them that the reviewer will not be able to

perform or continue to perform the firm's peer review. No details or explanation of the reason should be provided to the firm. This should be left to the reviewer's discretion to discuss with the firm if he or she chooses.

Once the reviewer has been deemed ineligible, the committee should establish policies and procedures for identifying and monitoring reviews of the ineligible reviewer, which may be in different stages of completion. The following section D provides committees with considerations for establishing such policies and procedures.

3. *Release of Ineligibility*

To be reinstated to schedule and perform reviews, staff must receive documented evidence that indicates that the reviewer possesses all the qualifications required of a reviewer. Generally, once staff receives satisfactory evidence of compliance with the qualifications, staff will send evidence to three board members requesting approval to allow the reviewer to continue performing reviews. However, board approval is not required and reviewers may be reinstated after staff reviews and approves the documented evidence that the following ineligibility reasons have been cured:

- The reviewer's AICPA membership was lapsed or suspended
- The reviewer's firm's peer review was not accepted within the last three years and six months
- The reviewer's firm's most recently accepted peer review resulted in a report rating of *pass with deficiencies* or *fail*

If approved, the reviewer will be sent a letter indicating that the reviewer is able to schedule and perform reviews. A copy of the letter will be sent to all AEs where the reviewer has performed reviews during the past year or has reviews scheduled. Reinstatement as a committee member, RAB member, or technical reviewer would be at the AE's or committee's discretion.

C. Appeals to the Board [fn 24]

Reviewers who wish to appeal an ineligibility letter must request that a hearing panel be assembled. That request must be made in writing (via email or letter) to the board within 30 days of re-

[fn 24] Details of the hearings and appeal processes can be found in the AICPA Peer Review Board *Rules of Procedures for Reviewers* at aicpa.org.

ceipt of the ineligibility letter. The reviewer should include any evidence to support the reviewer's position.

The request for an appeal will not lift or delay the ineligible status of the reviewer. Once the ineligibility letter has been issued, it may only be lifted if the reviewer submits to staff documented evidence that indicates that the reviewer possesses all the qualifications required of a reviewer, or the hearing panel determines that the reviewer possess all reviewer qualifications. A hearing panel is not necessary if the reviewer has submitted information or documents to the satisfaction of staff indicating that the reviewer possesses all reviewer qualifications.

See section VI of this chapter for hearing and appeal procedures per the *Rules of Procedure for Peer Reviewers.*

D. AE Considerations When a Reviewer Is Ineligible to Schedule or Perform Reviews

Because reviews performed by a reviewer may be in different stages of completion when the reviewer is determined to be ineligible to schedule or perform reviews, the following various scenarios should be considered by the committee when formalizing policies and procedures:

1. *The scheduled review has not commenced*. Within five business days of the reviewer being notified by staff of being ineligible or by the commencement date of a scheduled review, if earlier, the reviewer must discuss the matter with the reviewed firm. The reviewer should either withdraw from or reschedule reviews, including planning procedures, pending the reviewer's ineligible status being lifted or a final board decision if the reviewer appeals. Reviewers should keep in mind that their ineligible status is not ordinarily a valid reason for which an AE would grant an extension of the reviewed firm's due date.

   If the reviewer fails to contact the reviewed firm, the AE may contact the reviewed firm to inform it that the reviewer will not be able to perform or continue to perform the firm's peer review. No details or explanation of the reason should be provided to the firm by the AE without the reviewer's consent. Contacting the firm may not be necessary if the firm's review is not scheduled to commence in the near future.

   For example, if the reviewer is notified by staff of his or her disqualification on May 1, and a review originally scheduled to commence May 15 is not rescheduled by May 7, the AE may inform the firm that "its reviewer cannot perform the review at this time, and if further information is required, please contact your peer reviewer." The firm should be advised that it may need to hire a new reviewer in order to meet the firm's due date. However, if a review is scheduled to commence in September, it may not be necessary to contact the firm now.

   If it is determined that a reviewer commenced a review after receiving the ineligibility letter and submitted the report and related working papers, the AE should contact the reviewer and inform him or her that the review cannot be presented to the RAB. In this situation, the AE should follow the egregious act guidance in section IV and the reviewer

should contact the firm and advise the firm of the circumstances. This may cause the firm to have another peer review performed by an eligible reviewer.

2. *The scheduled review has commenced and is in process, in house, or accepted*

    a. *but the fieldwork is not complete*. The committee should consider which qualifications the reviewer did not possess and the impact that may have on the performance by the reviewer. Based on such assessment, the committee may decide that the remainder of fieldwork should be performed by an eligible reviewer or that on-site or off-site oversight at the reviewer's expense should be performed by a committee member, technical staff, or another qualified peer reviewer. See the following (b) for procedures to be considered by technical staff.

    b. *and the fieldwork is complete, but working papers have not yet been received by the AE, or the review is in house awaiting technical review*. The committee should consider which qualifications the reviewer did not possess and the impact that may have on the performance by the reviewer. Based on such assessment, the committee may decide that (on-site or off-site) oversight should be performed, at the reviewer's expense. Although the review would have already been performed, the oversight can still be performed afterward with the cooperation of the reviewed firm either providing or forwarding requested items to the person(s) performing the oversight.

    If oversight is not performed, the committee should consider if the technical staff should perform a technical review of all working papers related to the peer review. If so, the technical reviewer should approach the review with a higher degree of skepticism with regard to the reasons for ineligibility. He or she should carefully consider the effect of the ineligibility on the reviewer's ability to perform and report on the review and whether, based on his or her procedures and any other procedures performed, including oversight, he or she was able to overcome concerns over the reviewer's qualifications during the performance of the review. Technical staff should fully report on these procedures to the committee.

    c. *and the review has been submitted to the committee for consideration*. Depending on the reason for ineligibility, the committee should consider deferring the review until the technical staff has performed the procedures previously described (b). Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

    d. *and the review is accepted, but the acceptance letter has not been sent to the firm*. The AE should discuss the matter with the Chair of the RAB or the committee Chair and consider whether the acceptance letter should be delayed and the re-

view deferred until the procedures previously described (b) are performed. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

3. *The review is accepted, and the firm has been sent acceptance letter, and*

    a. *it is within the working paper retention period*. The procedures previously described in 2(b) should be considered by the committee. Those procedures should be performed as soon as practicable. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation. The working papers should not be destroyed until all procedures have been performed to the satisfaction of the committee and a resolution has been reached.

    b. *it is outside the working paper retention period*. The AE should contact staff to discuss the impact of an ineligible reviewer. If it is apparent that the reviewer performed the review when he or she did not possess the qualifications, staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

III. Responsibility to Perform in a Timely and Professional Manner

A. Timely and Professional Performance

Firms undergo a peer review because they recognize its importance to the quality of their practice and to meet various regulatory and membership requirements. Therefore, performing the review in a timely and professional manner is critical to a firm. A reviewer has a responsibility to perform all aspects of a review in a timely, professional manner. This includes, but is not limited to, submission of reports, working papers, and additional actions or revisions requested by the RAB or the program's technical reviewer, as well as the board and staff.

If a reviewer fails to perform the review in a timely and professional manner, the reviewer may be deemed as not cooperating. Situations of failing to perform in a timely and professional manner may include, but are not limited to, the following:

- Failure to submit the report; findings for further consideration (FFC) forms, if applicable; and required review documents to the AE within the required specified time as indicated in the standards when the delay is not caused by the reviewed firm

- Failure to respond or resolve questions, including requests for additional procedures (such as the expansion of scope on the review) from the technical reviewer, committee or RAB, or board or staff within the specified time

- Failure to revise the report and FFC forms, if applicable, as requested by the committee or RAB or board or staff

- Failure to respond to requests from the technical reviewer, committee or RAB, or board or staff for documents (in addition to those originally required to be submitted) or requests to complete documentation of work or procedures performed during the review

- Failure to submit documents and other information requested as a result of oversight

- Failure to cooperate during or after an oversight

- Failure to update or revise reviewer résumé using the appropriate experience codes based on the reviewer's experience in his or her own firm or for work performed for another firm as an independent contractor

- Failure to verify résumé information upon request from the committee, board, or staff on a timely basis

B. Process When a Reviewer Fails to Perform in a Timely and Professional Manner

Situations, such as those previously indicated, may arise when the reviewer fails to perform in a timely and professional manner. This warrants communication with the reviewer by the AE, board, or staff. It may result in his or her potential suspension from scheduling or performing peer reviews. AEs should confirm that it is the reviewer, not the reviewed firm that is failing to perform in a timely and professional manner prior to starting the suspension procedures. In addition, it is important to determine if there is a disagreement among the reviewer, firm, or committee. If there is a disagreement, then the procedures for handling a disagreement should be followed (see chapter 7).

- For such matters as previously mentioned, the AEs should proceed as outlined in the subsequent list. (See section C for national suspension due to a reviewer not verifying resume information on a timely basis.)

- *Reminder letter one*. The AE should send the reviewer a reminder letter via email or regular mail after 14 days of the documents being due. The letter reminds the reviewer of the questions or requests for documents and requires the reviewer to submit those within 5 days from the date of the email or letter. It also asks the reviewer to inform the AE if he or she believes that the reviewed firm is causing the delays of such requested information. The reviewed firm should also receive a copy of the letter sent to the reviewer.

- *Contact reviewer*. If the reviewer does not respond, or the required documents are not received after 5 days of sending the letter, the AE should contact the reviewer by phone or email (using the telephone number or email address on the reviewer's résumé) to determine the reason for the failure to respond. The results of this call or electronic request should be documented. The AE should consider the reason for the failure to respond to

requests when determining whether to suspend the reviewer from scheduling or performing peer reviews administered by that AE.

During this communication, the AE and reviewer may come to a mutually agreed upon due date of when the working papers will be received. If the reviewer fails to meet this due date, the reviewer should automatically be suspended.

It is the reviewer's responsibility to respond to requests communicated by letter, telephone call, or email. If the reason for not submitting documents is related to the reviewed firm delaying the process or a disagreement, the AE should not suspend the reviewer. In this situation, the AE should either send appropriate warning letters to the firm or adhere to the disagreement guidance (see chapter 7).

- *Reviewer suspension*. Once the preceding procedures are completed, and it is determined that warning letters should not be sent to the reviewed firm, the AE should suspend the reviewer from scheduling future reviews that it administers. A suspension letter should be mailed (with proof of delivery) to the reviewer notifying the reviewer that he or she is no longer permitted to schedule future reviews in the AE's jurisdiction.

  In instances when the reviewer has not submitted appropriate documentation to support his or her résumé information, the AE should send a request to the board for a national suspension. See section C for board procedures for national suspension.

  A suspension letter does not preclude AEs from issuing reviewer performance feedback; additional suspension warning letters related to another review; or other communications, if warranted. When a reviewer fails to perform in a timely, professional manner resulting in suspension of his or her ability to schedule or perform reviews, this is considered a reviewer performance finding. The AE should consider reviewer performance findings related to suspensions for failure to perform in a timely, professional manner when evaluating patterns of reviewer performance findings or considering whether to issue a performance deficiency letter. For example, a performance deficiency letter may be warranted when the committee notes significant tardiness in the submission of documents on reviews for which the reviewer served as team captain or review captain, resulting in a restriction in the ability to schedule reviews, and no improvement was noted after the suspension was lifted.

- *Request to suspend the reviewer nationally*. An AE or staff may refer the reviewer to the board for national suspension when a reviewer is sent the suspension letter. The board has authorized the Director of the program or his or her designee to determine if it is appropriate, based on standards and guidance, to form a hearing panel. If it is decided that it is appropriate for a hearing panel to consider this matter, a meeting via telephone conference should be scheduled, ordinarily within 60 days of the date on the letter. If not done within 60 days, this does not affect the actions of the panel.

- *Suspension removal letter*. The reviewer will remain suspended until he or she has answered questions or submits documents to the satisfaction of the AE related to the suspension.

If a reviewer fails to perform in a timely, professional manner multiple times, multiple suspension letters should be sent to the reviewer. The reviewer must address each suspension. Satisfying the outstanding items for one suspension does not lift all suspensions. If multiple suspensions are in place, the reviewer remains unable to schedule reviews until all outstanding situations have been resolved to the satisfaction of the AE, staff, or board. Once all suspensions are lifted, the reviewer will be able to schedule and perform peer reviews.

C. Suspend the Reviewer Nationally for Not Submitting Documentation to Support Experience Codes on Reviewer's Résumé

An active reviewer is defined as one who has updated his or her résumé or performed peer reviews under the AICPA Peer Review Program standards within the last three years. Although reviewers are required to update their résumé annually, as part of required oversight procedures, AEs must request reviewers to verify their résumé information every three years, at a minimum. AEs are encouraged to perform the initial verification of a reviewer's résumé within one year of the reviewer entering his or her résumé into the reviewer résumé database on the peer review administrative website. Thereafter, the résumé verification for that reviewer should follow the regular three-year résumé verification cycle, unless circumstances warrant an interim verification. The objective is to validate the accuracy of the experience codes on the résumé are accurate. The verification process must include documentation to support all industries noted on the reviewer's résumé.

The primary concern when reviewing the areas of experience on the reviewer's résumé is that the reviewer may not have sufficient experience to be able to identify when the reviewed firm has not performed engagements in accordance with professional standards. An AE should suspend the reviewer from scheduling and performing reviews in all jurisdictions when he or she has not submitted documentation to support the experience codes reflected on his or her résumé.

Initial Request for Résumé Information

A reviewer is expected to respond to requests for résumé information within 30 days of the date of the initial request. Once a reviewer has received the request for resume information, he or she should not ignore the request. If a reviewer is unable to provide the information within 30 days, he or she should contact the AE to provide a mutually agreed upon reasonable date when the information will be remitted.

Resume Warning Letter

If the reviewer has not responded within 30 days, a warning letter should be sent to the reviewer. The letter reminds the reviewer to submit the resume information within 14 days from the date of the letter. It also informs the reviewer that if he or she does not comply with the request, he or she will be suspended from being able to schedule and perform reviews for all AEs.

Contact Reviewer

After 14 days of sending the résumé warning letter, if the reviewer does not respond, or the required documents are not received, the AE entity should contact the reviewer by phone or email (using the telephone number or email address on the reviewer's resume) to determine the reason for the failure to respond. The results of this call or electronic request should be documented. If the reason for the reviewer's failure to respond to requests is not substantive, the AE should suspend the reviewer from scheduling or performing peer reviews in all jurisdictions. An example of a substantive reason for failing to respond would be a major illness of the reviewer.

During this communication, the AE and reviewer may come to a mutually agreed upon due date of when the information will be received. If the reviewer fails to meet this due date, the reviewer should be automatically suspended.

Resume Suspension Letter

After the preceding procedures have been completed, and the reviewer has not complied with the requests, the AE should suspend the reviewer from scheduling or performing reviews in all jurisdictions. A résumé suspension letter should be sent by common carrier (with proof of delivery) to the reviewer, indicating that the reviewer is no longer permitted to schedule or perform reviews in all jurisdictions. The reviewer may appeal this suspension.

An AE should provide a copy of the resume suspension letter to AICPA staff and communicate the suspension to other AEs where the reviewer has reviews already scheduled. Failure to submit documents for resume verification and complete the verification process disqualifies the reviewer from scheduling and performing reviews in all jurisdictions (see Section II.D of this chapter for AE considerations of reviews already scheduled). The reviewer is not allowed to perform reviews that are scheduled but have not commenced at the time of suspension.

Suspension Release

The reviewer will remain suspended until he or she has answered questions, submitted documents supporting resume information, or revised the reviewer resume to the satisfaction of the AE or the board lifts the suspension as a result of an appeal.

D. Appeals to the Board [fn 25]

Reviewers who wish to appeal a suspension letter must request that a hearing panel be assembled. That request must be made in writing (via email or letter) to the board. The reviewer should include any evidence to support the reviewer's position. The board has authorized the Director of the program or his or her designee to determine if it is appropriate based on standards and guidance to form a hearing panel. If it is decided that it is appropriate for a hearing panel to consider

[fn 25] See footnote 24.

this matter, a meeting via telephone conference should be scheduled ordinarily within 60 days of the date on the letter. If not done within 60 days, this does not affect the actions of the panel.

The request for an appeal will not lift or delay the suspension of the reviewer. Once the suspension letter has been issued, the suspension will remain in effect until the reviewer has submitted required documents to the satisfaction of the AE, or the hearing panel determines that the suspension should be removed or revised, whichever occurs earlier.

See section VI of this chapter for hearing and appeal procedures per the *Rules of Procedure for Peer Reviewers*.

E. AE Considerations When a Reviewer Is Suspended for Failing to Perform Reviews in a Timely and Professional Manner or Complete His or Her Résumé Verification

Suspension for Failing to Perform Reviews in a Timely and Professional Manner

If a reviewer has been suspended for not timely and professionally submitting documentation but has been scheduled and approved for other reviews at the time of the suspension, the reviewer will ordinarily be permitted to perform those previously scheduled reviews. Late submission of documents on one review would not ordinarily create the need for oversight or disallow a reviewer from performing already approved and scheduled reviews.

Nothing precludes the AE from issuing multiple suspensions if the reviewer is not timely and professionally responding to the submission of documents on reviews subsequently performed by the reviewer. In instances when the reviewer is continuously late, leading to multiple suspensions, the AE, board, or staff should consider issuing a performance deficiency letter (see section IV).

Suspension for Failing to Submit Documentation for Résumé Verification

If a reviewer is suspended for not verifying his or her résumé information, this may create the need for oversight at the reviewer's expense. For reviews that have been accepted within 120 days, the committee should review the facts and circumstances of each review. Based on that conclusion, the committee may determine that oversight is necessary.

If the results of the oversight indicate that the reviewer had performance issues, the results should be discussed with the reviewer. If the reviewer is unable to justify his or her conclusions by citing professional standards, this may indicate reviewer performance deficiencies or findings. If there is concern about the reviewer’s performance, and the acceptance letter has been issued, the AE should contact staff to discuss the situation. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation. See chapter 3 of the *Report Acceptance Body Handbook* for guidance on recall of peer review documents when a reviewer was not qualified to perform the review.

When a reviewer fails to perform in a timely, professional manner resulting in suspension of his or her ability to schedule and/or perform reviews, this is considered a performance finding. Con-

sistent with the guidance in section IV of this chapter, a reviewer performance feedback form should be issued to the reviewer documenting this matter. In instances when the reviewer is suspended multiple times, the AE, board, or staff should consider issuing a performance deficiency letter.

IV. Reviewer Performance

A. Deficiencies or Findings in Reviewer Performance

During the review acceptance process, the committee evaluates the reviewer's performance. In addition to the committee's evaluation, the board and staff may also evaluate and monitor the reviewer's performance through other means, such as oversight. The committee should determine the severity of any identified reviewer performance deficiencies or findings.

If a pattern of reviewer performance findings by a particular reviewer is noted, then the board or committee should issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing reviews in the future. If more than one reviewer performance deficiency is noted (regardless of whether a pattern is present), then the board or committee should either issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future (standards sec. 1000 par. .148). However, if the reviewer's performance on a review is considered egregious, the board or committee may require the reviewer to complete one or more corrective actions or the committee should recommend to the board that the reviewer be prohibited from performing peer reviews in the future based on a single instance of a reviewer performance deficiency.

The following sections outline various degrees of reviewer performance deficiencies or findings and the guidance for handling such matters.

B. Reviewer Performance Feedback Forms

Reviewer performance feedback forms document reviewer performance deficiencies or findings on individual reviews. Committees should use reviewer performance feedback forms when performance deficiencies or findings are noted during the review acceptance process or through other means such as oversight.

The purpose of issuing a reviewer performance feedback form is to document specific areas of needed improvement. Reviewer performance feedback forms also help the AE and staff monitor the performance of the reviewer, including whether there is a pattern of reviewer performance findings. Deficiencies or findings noted on reviewer performance feedback forms should be substantiated by peer review guidance. Completion of the explanation section of the reviewer performance feedback form or other written correspondence with the reviewer (which is retained with the reviewer performance feedback form) is required to ensure that the reviewer understands the reviewer performance deficiencies or findings.

The reviewer performance feedback form is designed to give reviewers feedback directly from the committee or board. The reviewer performance feedback form should be signed and dated by the committee or board or one of its members. Technical reviewers and staff may make recommendations for reviewer performance feedback to the committee or board but should not issue or sign reviewer performance feedback forms.

When the committee or board issues performance feedback to a team member, impact to the team captain should be considered. For example, if the team member receiving performance feedback did not identify the matters on the checklist which would have informed the team captain to consider the issues, then the team captain cannot bear that responsibility and should not receive performance feedback. However, if the team member identified significant "no" answers in the checklists but did not properly conclude on the engagement and the team captain did not question the conclusion, there is still a responsibility for properly supervising and fulfilling the team captain role. The team captain should then receive performance feedback as well as the team member.

The AE should issue reviewer performance feedback timely to allow the reviewer an opportunity to correct performance weaknesses. This communication should take place no later than the notification to the reviewer that the underlying peer review has been accepted by the committee. If the reviewer performs reviews for other AEs, it is important that feedback be shared with those AEs. As such, the AICPA has developed a web-based platform to house all performance feedback forms issued by committees or the board. The AE issuing the feedback should verify that the reviewer performance feedback forms are available to staff and other AEs within 14 days of issuance. This procedure enhances monitoring of reviewers' performance. Each AE should have formalized procedures in place to allow for periodic monitoring of reviewer performance feedback forms to determine whether there is a pattern of findings in a reviewer's performance.

Reviewer Performance Deficiencies

The following is a listing of reviewer performance deficiencies that would be documented on a reviewer performance feedback form:

- Engagement Selection and Review: The reviewer did not
  - — appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight or RAB consideration and did not demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight or RAB consideration (standards sec. 1000 System Reviews par. .66–.67; Engagement Reviews par. .109)
- Assessment and Disposition of Matters: The reviewer did not
  - — appropriately aggregate or evaluate matters noted on the review (standards sec. 1000 System Reviews par. .75–.86; Engagement Reviews par. .111–.115), such

that the committee determined a deficiency was present when the reviewer did not elevate the matter beyond an MFC, or the committee determined a significant deficiency was present when the reviewer did not elevate the matter beyond an FFC.

Reviewer Performance Findings

The following is a listing of reviewer performance findings (not all inclusive) that would be documented on a reviewer performance feedback form:

- Planning: The reviewer did not
  - — obtain team member approval timely after determination that the review team or reviewer did not possess the proper qualifications or adequate experience to perform the review of an engagement in a particular practice area or industry. (standards sec. 1000 par. .30)
  - — obtain a sufficient understanding of the firm's accounting and auditing practice or system of quality control when performing a peer review resulting in the need to perform additional work after the review working papers were submitted to the administering entity. This would also include failure to address significant differences between the background information provided to the administering entity during scheduling and the information that the firm provides to the reviewer. A significant difference is defined as one that would have affected peer review planning or procedures. (standards sec. 1000 par. .41–.45)
  - — adequately document a comprehensive risk assessment for the System Review, and additional clarification was necessary after peer review working papers were submitted to the administering entity. (standards sec. 1000 par. .49–.50)
- Engagement Selection and Review: The reviewer
  - — did not select a sufficient or appropriate scope of engagements for review in accordance with guidance. This includes selecting too many engagements on an engagement review. (standards sec. 1000 System Reviews par. .53–.63; Engagement Reviews par. .104–.109)
  - — did not properly select the "surprise" engagement or did not provide sufficient documentation of reasoning for selection. (standards sec. 1000 par. .61)
  - — identified all significant issues in an engagement but did not appropriately conclude on whether an engagement was performed or reported on in conformity with applicable professional standards in all material respects prior to technical review, oversight or RAB consideration. (standards sec. 1000 System Reviews par. .66–.67; Engagement Reviews par. .109)
- Assessment and Disposition of Matters: The reviewer did not

  - identify matters, findings, deficiencies, or significant deficiencies appropriately. (standards sec. 1000 System Reviews par. .70; Engagement Reviews par. .110)
  - appropriately dispose of matters noted on the review or properly complete the DMFC form. (standards sec. 1000 System Reviews par. .72–.74; Engagement Reviews par. .112–.114)
  - properly consider or document the need to expand scope to other engagements or functional areas. (standards sec. 1000 par. .68 and Interpretation No. 84-1)
  - appropriately aggregate or evaluate matters noted on the review. (standards sec. 1000 System Reviews par. .75–.86; Engagement Reviews par. .111–.115)

- Completion of FFC Forms: The reviewer did not
  - systemically write findings in a System Review. (standards sec. 1000 par. .83)
  - sufficiently complete or write FFC forms or evaluate the firm's response. (System Reviews sec. 4960; Engagement Reviews sec. 6600)
  - properly identify a repeat finding. (Interpretation No. 83-2)

- Reporting: The reviewer did not
  - properly identify that a deficiency was a repeat. (standards sec. 1000 System Reviews par. .96; Engagement Reviews par. .122n)
  - provide sufficient peer review working papers or documentation to support the report rating. (standards sec. 1000 System Reviews par. .87–.90; Engagement Reviews par. .117–.119)
  - represent the report in standard form in accordance with peer review guidance, or significant revisions to the report were needed. (standards sec. 1000 System Reviews par. .96; Engagement Reviews par. .122)
  - properly review and evaluate the reviewed firm's letter of response prior to its submission to the administering entity. (standards sec. 1000 System Reviews par. .100; Engagement Reviews par. .126)

- Completion and Submission of Working Papers: The reviewer did not
  - comprehensively complete peer review documentation, or the documentation that was submitted required revisions. (standards sec. 1000 par. .24)
  - properly report engagement statistics or did not properly discuss in other peer review practice aids when it was determined that the engagement was not per-

formed or reported on in conformity with professional standards in all material respects. This also includes consideration of the reviewed firm's response to such an engagement in accordance with professional standards. (Interpretation No. 66-1)

— use appropriate practice aids that conform to the relevant peer review standards, follow current templates, materials, and checklists that have significant and relevant changes from versions used. (standards sec. 1000 par. .24 and Interpretation No. 24-1

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

A reviewer performance feedback form should not be issued for inconsequential matters (see section C), nor should a reviewer performance feedback form be used when a reviewer commits an egregious act. If acts by the reviewer is deemed by the committee to be egregious, the AE should consider issuing a removal letter to the board after following guidance in section I.

Regardless of whether the reviewer cooperated in revising documents requested by the technical reviewer or committee, a reviewer performance feedback form is required to be issued whenever one or more of the above reviewer performance deficiencies or findings are noted during oversight, technical review, or the RAB acceptance process. When there are multiple findings on one review, the AE should consider whether a deficiency letter should be issued.

The proper communication should be made regardless of the status of the reviewer. This includes reviewers currently suspended or subjected to other corrective actions, suspension, or restriction.

Self-Reported Reviewer Performance Deficiencies or Findings

When a reviewer notifies an AE that performance deficiencies or findings are present on reviews that he or she submitted to the AE, and those reviews have not yet been subject to technical review, the reviewer should not receive a reviewer performance feedback form. The reviewer should be given the opportunity to make the appropriate corrections on those reviews. If the reviewer does not correct the situation, then a reviewer performance feedback form would be appropriate.

For example, if a committee notes that a reviewer failed to complete a proper risk assessment, and the reviewer knows that the same issue is present on other reviews which have been submitted to the AE but were not yet subject to technical review, the reviewer may contact the AE, notify them of the issue, and revise the risk assessments without receiving reviewer performance feedback forms on the other reviews.

C. Other Communications to the Reviewer

Reviewer performance matters that do not rise to a sufficient level to be included on a reviewer performance feedback form may be provided as other communication, such as an email or a call from the technical reviewer. Technical reviewers may provide other communications to review-

ers for issues that are less critical in nature than the reviewer performance deficiencies or findings considered on a reviewer performance feedback form; this is not considered feedback. For example, other communications would include notifying a reviewer that a checklist was not signed by the team captain or that the reviewer's handwriting was difficult to read.

Other communications should not be provided in lieu of issuing a reviewer performance feedback form. Technical reviewers should consider communicating to the committee the aggregation of less critical departures from peer review guidance to determine if, collectively, the situation warrants the issuance of a reviewer performance feedback form. If a reviewer performance feedback form is warranted, the committee should issue it.

Other communications should not be retained in the peer reviewer's file but should be kept with the review working papers and destroyed (with the review working papers) 120 days after the review is completed.

D. Performance Deficiency Letters

Issuance of a Deficiency Letter for Reviewer Performance Findings

If a pattern of reviewer performance findings by a particular reviewer is noted, then the board or committee should issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future.

Issuance of a Deficiency Letter for Reviewer Performance Deficiencies

If more than one reviewer performance deficiency is noted (regardless of whether a pattern is present), then the board or committee should either issue a performance deficiency letter requiring the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future (standards sec. 1000 par. .148). However, if the reviewer's performance on a review is considered egregious, the board or committee may require the reviewer to complete one or more corrective actions or recommend to the board that the reviewer be prohibited from performing peer reviews in the future based on a single instance of reviewer performance deficiency.

Determining whether there is a pattern of reviewer performance findings is a matter of professional judgment. In assessing whether a pattern of performance findings is present, the committee or board should consider the recentness, nature and pervasiveness of the performance findings, taking note of the volume of reviews performed by the reviewer.

For example, if a low-volume reviewer performs three reviews each peer review cycle and reviewer performance findings were noted for all three, the committee or board may consider this a pattern of performance findings. However, if a high-volume reviewer performs over 100 reviews each peer review cycle and reviewer performance findings were noted on three of them, the committee or board may determine that a pattern of performance findings is not present.

If the reviewer performs reviews for multiple AEs, more than one AE will be monitoring the performance of the reviewer. If an AE, including the technical reviewer, identifies a reviewer performance finding for a particular reviewer, the AE should consider additional performance feedback issued to the reviewer on the AICPA's web-based platform in assessing whether a pattern of performance findings is present. If an AE has a review submitted to the committee that has similar reviewer performance findings to those identified in reviewer performance feedback forms issued by another AE, and the AE determines a pattern of performance findings is present, the AE should issue a performance deficiency letter, as provided in this guidance.

In situations in which one or more corrective actions are required, the administering entity must inform staff and such actions will be recognized by all other administering entities. Any corrective action required of a reviewer will apply to the individual's participation in the performance of any peer review unless the condition is specific to the individual's service as only a team captain, review captain, team member or QCM reviewer.

Process for Issuing the Performance Deficiency Letter

If the committee concludes corrective action or restriction is appropriate, the AE should issue the performance deficiency letter.

The performance deficiency letter should

a. state that improvements are needed in the performance of the reviewer.

b. include an explanation of the performance deficiencies.

c. indicate that the individual must agree to comply with one or more actions in order to continue performing reviews, such as, but not limited to, the following:

i. Oversight (at the reviewer's expense) until evidence of completion of a future reviewer's training or accounting or auditing course(s) is received or performance improves.

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

iii. Consult with the AE to discuss the planning and performance of the next review.

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

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

vi. Take specified types of and amounts of CPE, training, or pass the related AICPA Advanced Certificate Exam.

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

viii. Other corrective action(s) that would assist the reviewer in his or her performance of future reviews.

d. indicate that other AEs will impose the preceding action or restriction on the reviewer.

e. indicate that the committee may request the board to remove the individual's name from the list of qualified reviewers if improvements are not noted in the performance of the reviewer on subsequent reviews, or the reviewer refuses to cooperate, such as by failing to return a signed acknowledgement copy of the letter within 30 days from the date of the letter.

f. indicate that the reviewer will be suspended from scheduling reviews and performing reviews that are scheduled and not commenced in all AEs if the reviewer has not acknowledged the letter within 30 days from the date of the letter.

g. give the reviewer an opportunity to appeal the decision before a hearing panel of the board, via telephone conference or in writing.

h. indicate that a request for appeal must be made within 30 days of receipt of the letter and that the actions or restrictions outlined in the letter will remain in effect for all reviews that the reviewer commences, pending the appeal results.

i. be copied and sent to the managing partner of the reviewer's firm if the reviewer is not a sole practitioner and all AE's where the reviewer is scheduled to perform reviews or has performed a review in the past year.

The committee should ensure that the reviewer is fully knowledgeable about the evidence supporting the issuance of a performance deficiency letter. The AE issuing a performance deficiency letter should communicate (either through discussion or email) with the reviewer the various reviewer performance findings such as suspensions for failure to perform in a timely, professional manner, reviewer performance feedback forms, performance deficiency letters, and results of oversight. This communication must be documented.

Issuance of Deficiency Letters by the Oversight Task Force

If staff become aware of a pattern of reviewer performance findings or reviewer performance deficiencies (regardless of whether a pattern is present) by a particular reviewer, staff will consult with the affected AEs to determine whether a performance deficiency letter is being drafted. If no performance deficiency letter is being drafted or will be drafted by the AE, staff may refer the reviewer performance issue to the Oversight Task Force (OTF) of the board which will consider the need to issue a performance deficiency letter. The OTF's process for issuing the performance deficiency letter will be consistent with the process at the AE level.

E. Appeals to the Board [fn 26]

Reviewers who wish to appeal a performance deficiency letter must request that a hearing panel be assembled. That request must be made in writing (via email or letter) to the board within 30 days of receipt of the performance deficiency letter. The reviewer should include any evidence to support the reviewer's position.

The request for an appeal will not lift or delay the action or restriction outlined in the performance deficiency letter. Once the performance deficiency letter has been acknowledged, the restriction imposed for failing to acknowledge the performance deficiency letter will be removed. However, the action(s) or restriction(s) included in the performance deficiency letter will remain in effect for reviews that the reviewer commences until the reviewer has shown improved performance, or the hearing panel determines that the action or restriction should be removed or revised, whichever occurs earlier.

See section VI of this chapter for appeal procedures per the *Rules of Procedure for Peer Reviewers*.

F. AE Considerations When Reviewers Have Restrictions or Corrective Actions Placed Upon Them With the Issuance of a Performance Deficiency Letter

Because reviews performed by reviewers when they are issued performance deficiency letters may be in different stages of completion, the following various scenarios should be considered by the committee when formalizing policies and procedures:

1. *A performance deficiency letter has been issued within the last 30 days and has not been signed by the reviewer*. The action or restriction included in the letter cannot be imposed if the reviewer has not acknowledged the letter. If the reviewer does not acknowledge the letter within 21 days of the date of the letter, the AE should contact the reviewer by phone or email (using the telephone number or email address on the reviewer's résumé) to determine the reason for the failure to respond. The results of this call or electronic re-

[fn 26] See footnote 24.

quest and the AE's assessment of the reviewer's explanation for not responding should be documented.

If the letter is not acknowledged within 30 days of the date of the letter (or by the agreed upon extended due date) and the reviewer has not appealed the letter, the AE should restrict the reviewer from scheduling reviews and from performing reviews that are scheduled but have not commenced. This restriction will apply to all jurisdictions. The committee should submit a letter to the board requesting the removal of the individual's name from the list of qualified reviewers for failure to cooperate.

The committee should also consider on-site or off-site oversight on reviews that have commenced or been submitted for committee consideration. If oversight is not performed, the committee should consider whether the technical staff should perform a full technical review of all working papers related to the peer review. The technical reviewer should approach the review with a higher degree of skepticism with regard to the noted deficiencies. He or she should carefully consider the effect of the deficiency on the reviewer's ability to perform and report on the review and whether, based on his or her procedures and any other procedures performed, including oversight, he or she was able to overcome concerns over the reviewer's performance during the review. The technical reviewer should fully report on these procedures to the committee.

2. *A performance deficiency letter has been signed by the reviewer and requires oversight or a pre-issuance review prior to submission to the committee, and*

    a. *the scheduled review has commenced, but fieldwork is not complete*. The action in the performance deficiency letter should be adhered to by all AEs.

    b. *fieldwork has been completed prior to the receipt of the signed letter, but working papers have not yet been received by the AE, or the review is in house awaiting technical review*. The action in the performance deficiency letter should be adhered to by all AEs. Because the action will delay the acceptance of the review, the firm should be notified.

    c. *the review has been submitted for committee consideration*. The committee should consider deferring the review until the technical staff has performed the procedures previously described in (1). Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

    d. *the review is accepted, but the acceptance letter has not been sent to the firm*. The AE should discuss the matter with the Chair of the RAB or the committee Chair and consider if the acceptance letter should be delayed and the review deferred until other procedures have been performed. Other procedures could include over-

sight or a review of all working papers by the technical staff. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

If the technical staff reviews the working papers, they should approach the review with a higher degree of skepticism with regard to the reasons for issuance of the action placed upon the reviewer. They should carefully consider the reviewer's ability to perform and report on the review and whether, based on their procedures and any other procedures performed, they were able to overcome concerns about the reviewer's performance. Technical staff should fully report on these procedures to the committee.

e. the review is accepted, and the firm has been sent its acceptance letter, and

i. *it is within the working paper retention period*. The committee should consider if the technical staff should perform the procedures previously described in (1). These procedures should be performed as soon as practicable. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

ii. *it is outside of the working paper retention period*. The AE should contact staff to discuss the impact that this may have on reviews performed by the reviewer. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation. See chapter 3 of the *Report Acceptance Body Handbook* for guidance on recall of peer review documents when a reviewer was not qualified to perform the review.

G. Withdrawal of Actions Required in the Performance Deficiency Letter

Corrective actions will be withdrawn once the committee(s) or board determine that the reviewer's performance deficiencies have been corrected. The AE or board that issued the letter will make this determination. The decision should be based on evidence supporting the reviewer's fulfillment of the obligation placed upon him or her (for example, attending a peer review course) or why the action or restriction is no longer required. The reviewer will receive a letter notifying him or her of such decision.

H. Reviewer Removal Letters

The committee should issue a removal letter to the board recommending that a reviewer be prohibited from performing peer reviews in the future when the reviewer

- refuses to cooperate with the committee or board (for example, not signing the performance deficiency letter within 30 days);

- fails to correct performance deficiencies or findings after a corrective action has been required; or

- has committed an egregious act in the performance of a peer review.

A reviewer may also be referred to the board for removal when the reviewer

- fails to comply with peer review standards and guidance such that reviewer performance deficiencies or a pattern of reviewer performance findings are noted;

- fails to submit documentation to support the experience codes reflected on the reviewer's resume;

- fails to perform in a timely and professional manner resulting in suspension.

Any AE where the reviewer performs reviews may request the board to remove the reviewer from the list of qualified reviewers. Reviewers should not be referred for removal if reviewer performance deficiencies have been noted by the committee, corrective actions have been imposed on the reviewer and the reviewer has not had sufficient time and opportunity to correct the performance deficiencies.

When an AE requests the board to remove the reviewer, it should submit the removal letter and include all supporting documentation. Such a referral should be based on an affirmative vote of not less than a majority of the AE's peer review committee. A copy of the request should be submitted to the reviewer. The board will consider the need to remove the reviewer's name from the list of qualified reviewers or some other action(s) based on the facts and circumstances presented in the documents and evidence.

The committee should ensure that the reviewer is fully knowledgeable about the evidence supporting the issuance of a removal letter. The AE issuing a removal letter should communicate (either through discussion or email) with the reviewer the various reviewer performance feedback forms, performance deficiency letters, and results of oversight. This communication must be documented. One of the objectives of the communication is to determine if there may be a disagreement between the reviewer and AE. If there is a disagreement, then the committee should follow the guidance in chapter 7 of this handbook.

The committee should issue a removal letter (with proof of delivery) indicating that

1. the reviewer refuses to cooperate with the committee or board, failed to correct performance deficiencies or findings after a corrective action has been imposed, failed to comply with peer review standards and guidance such that reviewer performance deficiencies were noted, or committed egregious acts in the performance of a review.

2. the board is requested to consider whether the reviewer should be prohibited from performing reviews or whether some other action should be taken.

3. the board is also requested to suspend the reviewer's ability to schedule future reviews until this matter is resolved.

Submission of a reviewer for removal from the list of qualified reviewers must include, as applicable, supporting documentation, such as, but not limited to, reviewer performance feedback forms issued; deficiency letters; information of other communications, whether verbal or written; notes from committee meetings; and a timeline outlining the various communications.

Upon receipt of the removal letter and supporting documentation, the reviewer and AEs will be notified that a hearing panel will review the matter.

See section VI of this chapter for hearing panel procedures per the *Rules of Procedure for Peer Reviewers*.

Issuance of Removal Letters by the Oversight Task Force

If staff become aware that a reviewer refuses to cooperate with the committee or board, failed to correct performance deficiencies or findings after a corrective action has been imposed, failed to comply with peer review standards and guidance such that reviewer performance deficiencies or a pattern of reviewer performance findings are noted, or committed egregious acts in the performance of a review, staff will consult with the affected AEs to determine whether a removal letter is being drafted. If no removal letter is being drafted or will be drafted by the AE, staff may refer the matter to the Oversight Task Force (OTF) of the board which will consider the need to issue a removal letter. The process for issuing the removal letter will be consistent with the process at the AE level.

I. Egregious Acts by a Reviewer

Upon notification and evidence of egregious acts, the board or committee should consider restrictions against the reviewer. After reviewing evidence, facts, and circumstances related to an egregious act by a reviewer, the committee should consider issuing a removal letter requesting the board to take action against the reviewer. The committee should ensure the reviewer is fully knowledgeable about the evidence supporting the issuance of a removal letter. The administering entity issuing a removal letter should communicate (either through discussion or email) with the reviewer the evidence supporting the allegation. It is not necessary to issue other deficiency letters prior to the issuance of a removal letter. Depending on the facts and circumstances, some examples of egregious acts by a reviewer include, but are not limited to, the following:

- Signing false documents.
- Failure to perform a peer review board directive resulting from a hearing or review panel in a timely and professional manner.
- Continuing to schedule or perform reviews after receipt of a Required Corrective Action letter or Settlement Agreement from AICPA Professional Ethics which indicate the reviewer is restricted from performing reviews.

- Failure to notify an AE when there has been a restriction placed by a regulatory, a monitoring, or an enforcement body on the reviewer's ability to perform audit and attest engagements, and the reviewer continues to perform peer reviews.

- Knowingly providing advice to a firm that is contradictory to the standards, such as informing the firm that it may distribute the peer review report prior to committee acceptance or omitting engagements from the scope of the review without the appropriate scope limitations or approvals in compliance with the guidance.

- Reviewers used confidential material obtained during the peer review to enhance their own firm (such as a client listing).

- Failure to maintain qualifications or otherwise cooperate with the program (for example, not meeting licensure or regulatory requirements) leading the AE or firm to find another reviewer to complete the review and causing the firm harm.

The evidence, facts, and circumstances and any other documentation supporting the egregious act should be sent to the board. Upon receipt of the removal letter and supporting documentation, the reviewer and AEs will be notified that a hearing panel will review the matter. See section VI of this chapter for hearing panel procedures per the *Rules of Procedure for Peer Reviewers*.

J. AE Considerations When a Reviewer Is Removed from the List of Qualified Reviewers

Because reviews performed by a reviewer may be in different stages of completion when the reviewer is notified that the board has removed him or her from the list of qualified reviewers, the following various scenarios should be considered by the committee when formalizing policies and procedures:

1. *The scheduled review has not commenced*. Within five business days of the reviewer being notified by the board or by the commencement date of a scheduled review, whichever is earlier, the reviewer must withdraw from the scheduled review. Reviewers should keep in mind that their restriction is not ordinarily a valid reason for which an AE would grant an extension of the reviewed firm's due date.

   If the reviewer fails to contact the reviewed firm within five business days, the AE may contact the reviewed firm to inform it that the reviewer will not be able to perform the firm's review. No details or explanation of the reason should be provided to the firm by the AE. This should be left to the reviewer's discretion to discuss with the firm if he or she chooses.

2. *The scheduled review has commenced and is in process, in house, or accepted*

   a. *but the fieldwork is not yet complete*. The reviewer must inform the firm that he or she no longer has the ability to continue to perform the peer review. The reviewer

should withdraw from the engagement, and the firm should contact the AE to reschedule the review.

b. *and the fieldwork is complete, but working papers have not yet been received by the AE, or the review is in house awaiting technical review*. The committee should consider the impact that this may have on the performance by the reviewer. Based on that assessment, the committee may decide that (on-site or off-site) oversight should be performed, possibly at the reviewer's expense. Although the review would have already been performed, the oversight can still be performed afterward with the cooperation of the reviewed firm in either providing or forwarding requested items to the person(s) performing the oversight.

   If oversight is not performed, the committee should consider if the technical staff should perform a technical review of all working papers related to the peer review. If so, the technical reviewer should approach the review with a higher degree of skepticism with regard to the reasons for restriction. He or she should carefully consider the effect of the egregious act on the reviewer's ability to perform and report on the review and whether, based on his or her procedures and any other procedures performed, including oversight, he or she was able to overcome concerns over the reviewer's egregious performance of the review. Technical staff should fully report on these procedures to the committee.

c. *and the review has been submitted to the committee for its consideration*. Depending upon the egregious act, the committee should consider deferring the review until the technical staff has performed the procedures previously described in (b) or an oversight is done. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

3. *The review is accepted by the committee, but the acceptance letter has not been sent to the firm*. The AE should discuss the matter with the Chair of the RAB or the committee Chair and consider if the acceptance letter should be delayed and the review deferred until the procedures previously described in (b) have been performed or oversight is performed. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

4. *The review is accepted, and the firm has been sent its acceptance letter, and*

   a. *it is within the working paper retention period*. The procedures previously described in (b) should be considered by the committee. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the

impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

b. *it is outside of the working paper retention period*. The AE should contact staff to discuss the impact on reviews performed by the reviewer. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

K. Reinstatement of Reviewers after Removal

If a reviewer is removed from the list of qualified peer reviewers, the reviewer may apply for reinstatement by writing a letter to the board. Reinstatement may be granted at the discretion of the board Chair or his or her designee no sooner than three years after the date of the removal letter or the final decision of a hearing panel, ad hoc panel or review panel, whichever is later.

If approved for reinstatement, the reviewer will be sent a letter indicating that the reviewer is able to schedule and perform reviews. It is expected that those reviewers who are granted reinstatement will be required to undergo corrective actions and may be subject to restrictions to be determined by the board Chair or his designee. Those required actions or restrictions will also be detailed in the letter.

Reinstatement as a committee member, RAB member, or technical reviewer would be at the AE's or committee's discretion.

V. Reviewer Qualifications—Allegations, Investigations, or Limitations or Restrictions

At times, reviewers or reviewing firms may be notified by regulatory, monitoring, or enforcement bodies or others regarding an allegation or a restriction in the conduct of accounting, audit, or attestation engagements. The reviewer and reviewing firm should notify the relevant AE 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 reviewer (see Interpretation No. 34-1). When such situations arise, the committee, board, or staff will need to determine the effect of allegations or investigations, limitations or restrictions, or both on a reviewer's or reviewing firm's ability and qualifications to perform a review. If a reviewer or reviewing firm fails to notify the relevant AE or AICPA technical staff of such allegations or investigations, limitations or restrictions, or both within the specified time requirements, the reviewer or reviewing firm may be deemed as not cooperating with the program.

A. Notification of Allegation or Investigation

Responsibility of the Reviewer or Reviewing Firms

The reviewer and reviewing firms (reviewer and firm) should notify the relevant AE of communications relating to allegations or investigations from regulatory, monitoring, or enforcement bodies or others in the conduct of accounting, audit, or attestation engagements performed by the reviewer. 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 peer reviewer or reviewing firm's compliance with a regulatory, a monitoring or an enforcement body's (regulatory body's) rules (procedures, laws, professional standards, or practices). The notification should occur prior to the peer reviewer or reviewing firm being engaged to perform a review or immediately if the reviewer and firm have been approved to perform a review by the AE. The objective of the reviewer or reviewing firm informing the relevant AE of such allegations or investigations is to enhance the program's oversight process, which includes ensuring that 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 reviews. However, there could be situations when the nature, significance, or pervasiveness of the alleged deficiencies or an already existing preponderance of evidence would necessitate more immediate action in order to address the public interest.

Allegations or investigations against committee or RAB members should be more carefully monitored and considered due to the role that those members fill in the peer review process. Depending on the circumstances and considering the impact of their serving the public interest, possible actions are oversight of the committee or RAB member's peer reviews or having them recuse themselves from the report acceptance process (in its entirety or just from the report acceptance process to consider reviews with engagements in the industry or other classification addressed by the allegation or investigation).

B. Notifications Relating to Limitations or Restrictions

The Responsibility of the Reviewer and Reviewing Firms

The reviewer and reviewing firm should notify the AICPA technical staff and all relevant AEs of any limitations or restrictions on the reviewer's or reviewing firm's ability to practice or perform peer reviews. 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, pre-issuance reviews of engagements, or additional peer review or professional education requirements.

The notification should occur prior to the reviewer or reviewing firm being engaged to perform a review or immediately if approved or currently performing a review. The objective of the reviewer or reviewing firm informing the AICPA technical staff then relevant AEs of such limitations or restrictions is to enhance the program's oversight process, which includes ensuring that reviewers and reviewing firms are appropriately qualified to perform reviews.

An individual may not serve as a reviewer if his or her ability to practice public accounting or perform peer reviews has been restricted by a regulatory, a monitoring, or an enforcement body, beginning on the date that he or she is notified of the restriction and ending on the date that the restriction has been removed. If a reviewer's ability to perform peer reviews has a limited restriction as a result of an investigation performed by a regulatory agency such as the AICPA's

Professional Ethics Team ("Ethics"), the extent of the restriction will determine whether the reviewer still meets the qualifications.

Total Restriction:

A total restriction prohibits an individual from performing peer reviews in any capacity. If a total restriction is imposed, the individual no longer meets the qualifications and may not serve as a peer reviewer until such restriction is removed. Limited Restrictions: A limited restriction prohibits an individual from performing peer reviews in a specific capacity such as limited to a specific industry or engagement type (e.g. employee benefit plans or audits). If a limited restriction is imposed, the Oversight Task Force (OTF) will assess whether the reviewer is qualified to perform any peer reviews or if the reviewer is restricted from reviewing specific industry or engagement types (e.g. employee benefit plans or audits).

Administering entities should refer to Section V. I. in this chapter and assess the effects of a limited restriction on active reviews assigned to a reviewer.

If the limitation or restriction has been placed on the reviewer's firm or one or more of its offices, then the OTF 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.

C. Monitoring by AEs and Staff

Although it is the responsibility of reviewers and firms to notify the relevant AE of allegations or investigations or the AICPA technical staff of limitations or restrictions, AEs should monitor sources to ensure that they and the AICPA technical staff are being appropriately and timely notified.

AEs should

1. monitor the activities of organizations based in their state or under their jurisdiction that could initiate allegations or investigations or that could limit or restrict a reviewer and firm and that are relevant to meeting the objectives of the preceding requirement. Organizations to be monitored include those state-based organizations detailed in Interpretation No. 181-1b-1 and other state governmental agencies or other organizations that have the authority to regulate accountants (in connection with the firm's accounting, auditing, or attestation practice). It is recognized that this is dependent on the cooperation of those organizations and the usability of the data made available and how it correlates to the peer reviewer database.

2. monitor information received from the staff, which will monitor information available from federal or national organizations, [fn 27] including those detailed in Interpretation No. 181-1b-1, and will monitor actions requested or restrictions imposed by the AICPA's Professional Ethics Executive Committee (PEEC) as a result of its investigative process, as follows:

    a. PEEC may request a recommended action via a required corrective action letter. When the related violation relates to a technical matter, the individual is not permitted to perform peer reviews, including reviews in process, until the action is completed and satisfied. The individual is flagged in the peer review system as having a restriction, so that future reviews cannot be scheduled. The AICPA technical staff will monitor these actions and inform the appropriate AEs when the individual has a review or reviews that should be considered in light of the restriction.

    b. Ethics also shares settlement agreements with AICPA Peer Review Program technical staff. AICPA technical staff will monitor these actions and inform the appropriate AEs when the individual has a review or reviews that should be considered in light of the restriction.

    c. Certain information obtained from the ethics team may not be public information. Although the process does allow for certain information to be shared within the Peer Review Program, it should be treated as confidential.

    If an AE is notified or obtains knowledge of a limitation or restriction, the AE should promptly notify AICPA technical staff. It is the responsibility of the AE to consider and investigate, as deemed necessary, the specific circumstances, including whether any action, including performing oversight on the reviewer or reviewing firm, is appropriate.

D. AE Considerations When a Reviewer and Reviewing Firm Has an Allegation or Investigation

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 when the nature, significance, or pervasiveness of the alleged deficiencies or an already existing preponderance of evidence would necessitate more immediate action in order to address the public interest. On a case-by-case basis, the committee

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[fn 27] The Accountancy Licensee Database (ALD) is a program implemented by the National Association of State Boards of Accountancy to provide a central database with current licensee information of CPAs and accounting firms registered in the 55 accounting jurisdictions. The database is intended to also show whether a particular CPA has been sanctioned. This resource will be made available to specific public and private groups, including state boards of accountancy, accounting firms, and various regulatory authorities. However, it is still under development, and it is not currently expected to provide a user with the capability to search for sanctions. AICPA staff will monitor the development of the ALD to determine if it will be useful.

should consider and investigate, as deemed necessary, the specific circumstances, including whether any action, including performing oversight on the reviewer or reviewing firm, is appropriate.

Allegation Letter

After investigating the specific circumstances, if the AE determines that oversight should be required, the reviewer will be sent an allegation letter. If the reviewer performs reviews for multiple AEs, this letter will be sent to all AEs where the reviewer and reviewing firm are scheduled or have performed reviews in the last year. Each AE should consider the impact of the allegation on the reviews performed by the reviewer before concluding that oversight is required.

E. Appeals to the Board [fn 28]

Reviewers and reviewing firms who wish to appeal an allegation letter must request that a hearing panel be assembled. That request must be made in writing (via email or letter) to the board within 30 days of receipt of the allegation letter. The reviewer or reviewing firm should include any evidence to support the reviewer's position.

The request for an appeal will not lift or delay the action outlined in the allegation letter. Once the allegation letter has been issued, the action will remain in effect until the reviewer or reviewing firm has proven that the allegation or investigation has no merit or is closed, or the hearing panel determines that the action should be removed or revised, whichever occurs earlier.

See section VI of this chapter for hearing and appeal procedures per the *Rules of Procedure for Peer Reviewers*.

F. Initial Considerations by the Board When a Reviewer or Reviewing Firm Has a Limitation or Total Restriction

Upon receipt of notification of a total restriction placed upon a reviewer's or reviewing firm's accounting and auditing practice or ability to perform peer reviews, the AICPA must promptly notify the reviewer and firm that in accordance with the standards, beginning with the date the reviewer or reviewing firm received notification from a government or regulatory authority of the restriction, they are not qualified to perform peer reviews.

Additionally, in the case of the limitation on a reviewer's or reviewing firm's ability to practice the Oversight Task Force (OTF) will evaluate whether the reviewer is qualified to perform any peer reviews or if the reviewer is restricted from reviewing specific industry or engagement

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[fn 28] See footnote 24.

types. This evaluation will include the status of any reviews that the reviewer and firm is or was associated with since the date of notification by a government or regulatory authority. All AEs where the reviewer has performed or is scheduled to be performing peer reviews will be copied on the letter.

Staff will contact the reviewer and firm on a timely basis to discuss the limitation or restriction, related suspension, and effect on reviews that the reviewer and firm is associated with, beginning with the date of notification of the limitation or restriction from the government or regulatory authority. Discussions should include how each review will be treated or approached; the possible ramifications for the existence of a peer review report issued by an unqualified reviewer; and a suggestion that the reviewer and firm consult with their legal counsel and that if the reviewer and firm deem it appropriate, they should consider withdrawal of their peer review report(s). A representative of the affected AE should consider participating in these discussions. This communication with the reviewer should be documented.

G. Final Considerations by the Board When a Reviewer or Reviewing Firm Has a Limitation or Total Restriction

The board will delegate this responsibility to its Oversight Task Force (OTF) (or one of its other task forces, such as the NPRC for reviews administered by the NPRC [fn 29]) under the board's direction. Staff, the OTF, the NPRC, and the board will work together to ensure that there is a timely response in accord with the particular matter.

The reviewer, reviewing firm, or AICPA technical staff may receive notification or knowledge of a limitation or restriction on a reviewer or a reviewing firm when a review is in different stages. In these circumstances, the board will consider various factors in determining if the review should be rescheduled or oversighted, other additional procedures should be performed, or a new review should be performed (see Interpretation No. 34).

A limitation or restriction may be imposed by a regulator for a set time period or permanently and may be related to a reviewer's and firm's performance over a period of time or a particular incident. Ordinarily, the board will consider whether to, at a minimum, suspend or disqualify a reviewer and firm for the same period of the limitation or restriction imposed by the regulator. Thus, if the reviewer and firm is permanently limited or restricted, then the reviewer and firm is permanently disqualified from performing reviews. Similarly, if the reviewer and firm is limited or restricted for a calendar year, then the reviewer and firm is disqualified from performing reviews during that calendar year. The board may determine, based on the circumstances, to sus-

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[fn 29] The National Peer Review Committee (NPRC) possesses a unique knowledge base of the firms that it administers, a fair number of which have Securities and Exchange Commission clients or are larger sized, in turn making it more appropriate for it to address limitation or restriction issues within those firms under the oversight of the board, which will ensure the NPRC's consistency with the principles of this guidance.

pend a reviewer and firm for a longer period of time or request the performance of remedial actions in addition to the disqualification.

The board's evaluation will include the analysis of the status of any reviews that the reviewer and firm are or were associated with since the date of notification by a government or regulatory authority, regardless of their status.

The standards indicate that a reviewer and firm are not qualified to perform reviews if they have been limited or restricted. The board will make final determinations when the AICPA technical staff receives notification or knowledge of the limitation or restriction. This includes determinations regarding the scope, applicability, and time frame of the disqualification and the effect on reviews scheduled to occur or that have occurred during the limitation or restriction period or reviews that have not yet been accepted, completed, and had their working paper retention period expire. The board should read the full communication relating to the limitation or restriction; understand the scope, applicability, and time frame of the limitation or restriction; and consider and discuss the circumstances to determine its final decision on the matter. Factors that the board will consider include, but are not limited to, the following:

1. The type of peer review and the role of the peer reviewer for each preceding review

2. The date of notification to the reviewer and reviewing firm by a government or regulatory authority of the limitation or restriction in comparison with the date of notification from the reviewer and firm to the AICPA technical staff

3. Whether the reviewer and firm appropriately and timely notified the AICPA technical staff of the limitation or restriction, in compliance with the standards

4. Whether the reviewer and firm scheduled reviews without notifying the AICPA technical staff of such limitations or restrictions

5. Whether the limitation or restriction is related to a particular type of service (tax versus audit and attest or audits, reviews, or compilations); industry oversight; regulatory oversight, such as engagements falling under the purview of a particular regulator (for example, [PCAOB]); or state board of accountancy oversight

6. Whether the limitation or restriction is permanent or indefinite in duration (that is, restricted from performing audits until the firm complies with some requirement, but the firm has chosen to no longer perform audits, so the limitation or restriction will always be there)

7. Whether the limitation or restriction is temporary

8. The history of qualification, performance, and noncooperation matters and any other information relevant to these matters.

9. If a limited peer review restriction is imposed by a regulatory body such as Ethics, when assessing whether a limited restriction is appropriate, OTF will consider the document that describes the violations of professional standards as well as the reviewer's peer review history.

Some of these factors may weigh more heavily in the board's consideration than others, depending on the circumstances. For instance, if the PCAOB sanctioned a peer reviewer relating to his or her performance on various generally accepted auditing procedures on all of his firm's Securities and Exchange Commission (SEC) engagements, it would weigh more heavily than if the sanction related to accounting for one item only typically seen on SEC engagements. Similarly, if a state board of accountancy restricted a licensee's (reviewer's) ability to perform audits in his or her state for one year, it would weigh more heavily than if it had suspended him or her from performing compilations until he or she obtained the appropriate individual or firm license to perform such engagements in that state. Lastly, if the reviewer and firm did not appropriately and timely notify the AICPA technical staff of the limitation or restriction, in compliance with the standards, this will weigh heavily on the board's decision because non-notification could demonstrate noncooperation with the program.

The board may decide, based on the preceding factors, that the suspension or permanent disqualification may apply to the role of the peer reviewer on the team (team captain or team member to review only a particular engagement or industry); to a particular type of service (for example, just audits) or industry(ies); or another type of work or peer review—system or engagement.

The board's final decision about the effect of the limitation or restriction on the reviewer's and firm's qualifications must be made ordinarily within three weeks of the initial notification or communication to ensure a prompt response to the issue. The reviewer and firm will be notified of the details of the final decision, including, if applicable, its scope, applicability and time frame. The reviewer and firm will be notified that the final decision will apply to reviews administered by all AEs and that the reviewer and firm may appeal the decision by writing to the board explaining why they believe that the actions are unwarranted.

Based on the evidence submitted to the board, the board may decide, with or without committee recommendation, pursuant to guidance that it has established, to consider whether the reviewer and firm should be prohibited from performing reviews or whether some other action should be taken. If it is determined that the reviewer and firm should be restricted, the reviewer and firm will be sent a restriction letter.

It is the affected AE's responsibility to follow through on the actions placed upon the reviewer and firm, which are outlined in the restriction letter.

Restriction Letter

The restriction letter

1. notifies the reviewer and firm that in accordance with the standards, beginning with the date of notification by a government or regulatory authority of the limitation or restriction, they were no longer qualified to schedule and perform peer reviews

2. notifies the reviewer and firm that the board has suspended him, her, or it from scheduling or performing peer reviews, or depending on the severity and timing of notification, the board may consider other actions that should be taken based upon 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 depending upon the circumstances, referral to the AICPA's Professional Ethics Division for violating the *Code of Professional Conduct* (see Interpretation No. 34-2).

3. will copy all affected AEs, and the reviewer and firm will be suspended in the peer review system until further notice.

4. notifies the reviewer and firm that the final decision will apply to reviews administered by all AEs and that the reviewer and firm may appeal the decision by writing to the board explaining why they believe that the actions are unwarranted.

5. offers the reviewer and firm the right to appeal this decision by writing to the board within 30 days of the date of the letter.

H. Appeal to the Board [fn 30]

Reviewers and reviewing firms who wish to appeal a restriction letter must request that a hearing panel be assembled. That request must be made in writing (via email or letter) to the board within 30 days of receipt of the restriction letter. The reviewer or reviewing firm should include any evidence to support the reviewer's position.

The request for an appeal will not lift or delay the action outlined in the restriction letter. Once the restriction letter has been issued, the action will remain in effect until the reviewer has proven that the action is unwarranted, or the hearing panel determines that the action should be removed or revised, whichever occurs earlier.

See section VI of this chapter for appeal procedures per the *Rules of Procedure for Peer Reviewers*.

I. AE Considerations When a Reviewer and Firm Have a Restriction and Limitation

Because reviews performed by a reviewer and firm may be in different stages of completion when the reviewer and firm become restricted or limited, the following various scenarios should be considered by the committee when formalizing policies and procedures:

[fn 30] See footnote 24.

1. *The scheduled review has not commenced*. Within five business days of the reviewer and firm being notified by the AICPA of the temporary suspension or restriction letter or by the commencement date of a scheduled review, if earlier, the reviewer and firm must discuss the matter with the reviewed firm. The reviewer should either withdraw from the scheduled review or reschedule the commencement, including planning procedures, pending final board decision. Reviewers should keep in mind that their restriction or limitation is not ordinarily a valid reason for which an AE would grant an extension of the reviewed firm's due date. If the reviewer fails to contact the reviewed firm, the AE may contact the reviewed firm to inform it that the reviewer will not be able to perform or continue to perform the firm's review. No details or explanation of the reason should be provided to the firm. This should be left to the reviewer's discretion to discuss with the firm if he or she chooses. Contacting the firm may not be necessary if the firm's review is not scheduled to commence in the near future, and it is possible that the reviewer may no longer be restricted.

   For instance, if the reviewer and firm is notified by the AICPA of their disqualification on May 1, and a review originally scheduled to commence May 15 is not rescheduled by May 7, the AE may inform the firm that "its reviewer cannot perform the review at this time, and if further information is required, please contact your peer reviewer." The firm should be advised that it may need to hire a new reviewer and firm in order to meet the firm's due date.

   If a limited peer review restriction is imposed by a regulatory body such as Ethics, the review team should be reconfigured to comply with the requirements of the limited restriction. For example, if a reviewer is restricted from reviewing employee benefit plans and the reviewed firm has such an engagement, a team member with appropriate qualifications should be added to review that engagement.

2. *The scheduled review has commenced and is in process, in house, or accepted*

   a. *but the fieldwork is not complete*. The committee should consider on-site or off-site oversight performed by a committee member, technical staff, or another qualified peer reviewer, possibly at the reviewer's and firm's expense.

   b. *and fieldwork is complete, but working papers have not been received, or the review is in-house awaiting technical review*. The committee should consider on-site or off-site oversight performed by a committee member, technical staff, or another qualified reviewer, possibly at the reviewer's and firm's expense. Although the review would have already been performed, the oversight can still be performed afterward with the cooperation of the reviewed firm in either providing or forwarding requested items to the person(s) performing the oversight.

      If oversight is not performed, the committee should consider if the technical staff should perform a full technical review of all working papers related to the peer review. Technical staff should be aware of the limitation or restriction and its scope, applicability, and time frame and should perform their review with a higher degree of skepticism than with other reviews. They should carefully consider the

effect of the limitation or restriction on the reviewer's and firm's ability to perform and report on the peer review and whether, based on their procedures and any other procedures performed, including oversight, they were able to overcome concerns over the reviewer's and firm's qualifications, considering the limitation or restriction. Technical staff should fully report on these procedures to the committee.

c. *and the review has been submitted for committee consideration*. The committee should consider deferring the review until the technical staff has performed the procedures previously described in (b). Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

d. *and the review is accepted, but the acceptance letter has not been sent to the firm*. The AE should discuss the matter with the Chair of the RAB or the committee Chair and consider whether the acceptance letter should be delayed and the review deferred until the procedures previously described in (b) are performed. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

3. *The review is accepted, and the firm has been sent acceptance letter, and*

a. *it is within the working paper retention period*. The procedures previously described in (b) should be considered by the committee. Those procedures should be performed as soon as practicable so as not to harm the firm. Based on the results of these procedures, the committee should consider contacting staff to discuss the impact of the results. Staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

b. *it is outside of the working paper retention period*. The AE should contact staff to discuss the impact of the limitation or restriction. If it is apparent that the reviewer performed the review when he or she did not possess the qualifications, staff may consult with legal counsel. Based on the circumstances, the firm may be contacted to discuss the situation.

VI. AICPA Peer Review Board Hearing Panel and Ad Hoc Committee Procedures

A. Hearing Panel Procedures [fn 31]

Hearing panels determine whether to remove a reviewer from the list of qualified reviewers or whether some other action should be taken. The board has authorized the Director of the program or his or her designee to determine if it is appropriate, based on standards and guidance, to form a hearing panel. If it is decided that it is appropriate for a hearing panel to be formed, a meeting via telephone conference should be scheduled, ordinarily within 60 days of the request. If not done within 60 days, this does not affect the actions of the panel.

Reviewers will receive a notice of hearing that will provide the details of the meeting and a copy of the *Rules of Procedure for Peer Reviewers*. The *Rules of Procedure for Peer Reviewers* include the following:

1. The hearing panel will consist of five board members or others designated by the board Chair.

2. The hearings will be held via conference call.

3. The reviewer and AE will be given the opportunity to participate in the hearing process. If the reviewer or AE would like to appear via conference call, they must notify staff not later than 14 days prior to the hearing date of their desire to attend.

4. Other AEs will be provided an opportunity to remit a memorandum to the panel if they accepted reviews on which the reviewer acted as team or review captain during the three years preceding the date of the hearing.

5. The reviewer or AE may request a postponement for good cause. To be considered, any request must be received by the board not later than 14 days prior to the date of the hearing. The presiding officer of the panel or the Chair, in the absence of a presiding officer, shall have the sole discretion regarding granting a postponement.

6. If either the reviewer or AE does not advise staff that he, she, or it will attend the hearing, the hearing will proceed on the hearing date, even if neither party attends.

7. Decisions of the hearing panel are effective immediately. Staff may call or email the decision to the party that does not participate in the hearing. A letter will be sent to the reviewer and AE via common carrier, which provides proof of delivery, indicating the decision of the hearing panel.

[fn 31] See footnote 24.

In accordance with the *Rules of Procedure for Peer Reviewers*, decisions made by a hearing panel may be appealed to an ad hoc committee. The decision of the hearing panel will remain in effect during the appeal process.

B. Ad Hoc Committee Procedures [fn 32]

Ad hoc committees are formed when a reviewer or an AE requests a review of the hearing panel's decision. The board Chair or the Chair's designee shall appoint three members to the ad hoc committee. The party requesting the appeal shall bear the burden of convincing the ad hoc committee that the matter should be referred to a review panel and must provide support for the request by submitting evidence.

The other party will be notified of the request, sent a copy of the evidence submitted, and informed of the ad hoc committee meeting date. The other party may submit additional evidence supporting the decision of the hearing panel to the ad hoc committee not later than 14 days prior to the meeting date.

The ad hoc committee will meet in an executive session. At the discretion of the committee, AICPA staff may participate in the meeting to provide guidance related to peer review standards. The administering entity(ies), the reviewer, and legal counsel shall not be present during the meeting. No transcript will be prepared based on the meeting. The ad hoc committee will decide whether such request for review by a review panel shall be granted. A decision by the ad hoc committee denying a request for review is final and not subject to further review.

If the ad hoc committee decides that the matter should be referred to a review panel, the reviewer and administering entity will receive notification of the date and time that a review panel will meet to review the matter.

C. Review Panel [fn 33]

Review panels will be formed when an ad hoc committee decides that the matter should be referred to a review panel. The board Chair or the Chair's designee shall appoint five members to the review panel. The review panel will be drawn from either current board members or other members of the AICPA appointed at the sole discretion of the board Chair or the Chair's designee. Individuals who previously served on the hearing panel or ad hoc committee that reviewed the matter cannot be appointed to the review panel.

[fn 32] See footnote 24.

[fn 33] See footnote 24.

Action may be taken by the review panel, as long as a *quorum* is present, which is a majority of the review panel.

During the review of the matter, a review panel shall consider the entire record of the hearing together with such additional relevant material or memoranda submitted by the reviewer and administering entity that was considered by the ad hoc committee. Parties can submit additional evidence that could not have been produced earlier, and it is at the discretion of the Chair to determine if it can be admitted. This additional evidence may be sent to the review panel to be received not later than 14 days prior to the review date.

After deliberating the matter, the review panel has the authority to affirm, modify, or reverse all or any part of the decision of the hearing panel or make such other disposition of the case as it deems appropriate.

Decisions by the review panel are final and not subject to any further review.

D. Noncooperation after Appeal

After a final decision is reached, a letter detailing that decision will be sent to the reviewer. In circumstances where the decision requires the reviewer to take certain action, the reviewer's failure to cooperate within 30 days of the delivery of the letter will result in immediate removal from the list of qualified peer reviewers without the opportunity for further appeal.