PRP Section 4100
Instructions to Firms Having a System Review

Contents

Section *Paragraph*
4100 Instructions to Firms Having a System Review
Introduction ..... .01–.06
Prior to the Review ..... .07–.20
During the Review ..... .21–.22
Completion of the Review and Firm Responses ..... .23–.34
Fees and Expenses ..... .35–.37
Appendixes
A. Checklist for Firms Undergoing a System Review ..... .38
B. An Illustration of a List of Accounting and Auditing Engagements ..... .39
C. Timeline of Peer Review Process and Significant Events ..... .40
D. Firm Representation Letters for System Reviews That Include Engagements Subject to *Government Auditing Standards* and the Single Audit Act ..... .41

Introduction

.01 The purpose of these instructions is to provide overall guidance to firms having System Reviews under the AICPA Peer Review Program (the program). Firms should be aware of their peer review responsibilities and requirements as discussed in section 1000, *Standards for Performing and Reporting on Peer Review*. Firms should pay particular attention to paragraphs .01–.19 of the standards as well as these instructions. In addition, all individuals in the firm involved in the peer review should be familiar with the standards; section 2000, *Peer Review Standards Interpretations*; section 3000, *Other Guidance*; and materials relative to the aspect of the review that most directly affects their role in the firm. These individuals should be aware that peer review documents may need to be completed electronically by logging into their account on aicpa.org. If documents cannot be completed electronically, an alternative method acceptable to the AICPA can be used. These instructions should be used for reference on firm-on-firm reviews and reviews with association formed review teams.

.02 A System Review is required for firms that perform engagements under the Statements on Auditing Standards (SASs), *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements performed under the PCAOB standards. Engagements subject to PCAOB permanent inspection are excluded from the program (see Interpretation No. 7-1).

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

a. the reviewed firm's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA. See Statement on Quality Control Standards [SQCS] No. 8, *A Firm's System of Quality Control (Redrafted)* (QC sec. 10).[1]

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

.04 A System Review is designed to test a reasonable cross section of the firm's engagements with a focus on high-risk engagements. Additionally, a System Review tests significant risk areas where the possibility exists of engagements not being performed or reported on in conformity with applicable professional standards in all material respects (nonconforming). A System Review is not designed to test every engagement or compliance with every professional standard and every detailed component of the firm's system of quality control.

.05 A System Review also involves the review team obtaining a sufficient understanding of the reviewed firm's system of quality control with respect to each of the quality control elements in SQCS No. 8 to plan the review. SQCS No. 8 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: leadership responsibilities for quality within the firm (the "tone at the top"); relevant ethical requirements (such as independence, integrity, and objectivity); acceptance and continuance of client relationships and specific engagements; human resources; engagement performance; and monitoring. It also states that the nature, extent, and formality of a firm's quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm's size, the number of its offices, the degree of operating autonomy allowed to its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm's practice, and appropriate cost-benefit considerations.

.06 System Reviews are administered by state CPA societies and groups of state CPA societies that elect to participate, and the AICPA Peer Review Board's National Peer Review Committee. These groups are known as administering entities (see list on the AICPA peer review website at www.aicpa.org/interestareas/peerreview/community/links/pages/statesocietiesandneprlinks.aspx) and are approved by the AICPA Peer Review Board (the board) to administer the program. Generally, the administering entity will contact the firm about six months before the due date of the firm's review to begin to make arrangements for the review.

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

Copyright © 2019, American Institute of Certified Public Accountants, Inc.

Prior to the Review

.07 Firms enrolled in the program are required to have a peer review once every three years. In most circumstances, the year-end date should not change from one triennial review period to the next. Ordinarily, the peer review year is the 12-month period ending 6 months prior to the peer review due date. The peer review due date is 3 years and 6 months after the last peer review year end, or, in the initial year, is ordinarily 18 months after a firm enrolled, or should have enrolled, in the AICPA Peer Review Program. See paragraphs .13–.19 of section 1000 for timing of the reviews.

.08 It is the responsibility of the firm to verify that the team captain and team members are qualified to do the review.

.09 The firm and the team captain should agree on an appropriate date for the review to commence and the anticipated exit conference date. Ordinarily, the review should be performed within 3–5 months following the end of the year to be reviewed. The review should be planned to provide the review team with sufficient time to perform the review and to provide the firm with sufficient time prior to the exit conference to determine appropriate responses to matters, findings, deficiencies, and significant deficiencies identified during the review.

.10 The terms and conditions of the peer review may be summarized in an engagement letter between the reviewed firm and the reviewing firm or association, if an association formed the review team.

.11 A partner or manager of the firm should be designated as liaison to provide assistance to the review team and should be available throughout the review. The designated liaison should be someone who is knowledgeable about the nature of the firm's practice and is accountable for providing complete and accurate information to the administering entity and the peer review team. The information provided should include a complete listing of engagements within the peer review scope. Each firm should be aware that failure to represent its accounting and auditing practice accurately, as defined by the AICPA *Standards for Performing and Reporting on Peer Reviews*, will be deemed a matter of noncooperation with the program. As a result, the firm will be subject to a hearing before the Peer Review Board to determine if the firm's enrollment in the program should be terminated. If the firm's enrollment is terminated for omission or misrepresentation of information relating to its accounting and auditing practice, the matter will be referred to the AICPA Professional Ethics Division for firms with AICPA members for investigation of a possible violation of the AICPA Code of Professional Conduct.

.12 A reviewed firm may have legitimate reasons for excluding an engagement or certain aspects of functional areas, from the scope of the peer review, for example, when an engagement or an employee's personnel records are subject to pending litigation. In these situations, ordinarily the reviewed firm should notify the team captain in a timely manner and submit a written statement to the administering entity, ordinarily prior to the commencement of the review, indicating (*a*) it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process, (*b*) the reasons for the exclusion, and (*c*) that it is requesting a waiver for the exclusion.

.13 Provide the following to the team captain prior to the commencement of fieldwork:

a. The quality control document effective for the peer review year.

b. Relevant manuals, checklists, partner resumes, and background information. If the team captain performed the firm's previous review, he or she may be familiar with the firm and, as a result, may not request partner resumes or other nonessential information.

c. A list of accounting and auditing engagements prepared in the format shown in appendix B (par. .37) to these instructions or in another suitable manner as requested by the team captain. The firm should consider the following when developing the list:

i. The list should include all engagements with periods ended during the year under review (or report dates during the year under review for financial forecasts or projections and agreed upon procedures) and covered by the definition of an accounting and auditing practice for peer review purposes, regardless of whether the engagement reports are issued.

ii. The listing should separately identify each engagement, level of service, and industry for each client.

iii. The list should identify the engagements accepted since the last peer review.

iv. The firm should be prepared to describe its approach to ensuring a complete and accurate engagement listing for the firm's ongoing monitoring procedures and its approach for the peer review.

v. If the reviewed firm has clients with operations in foreign countries or commercial audits with special performance and reporting requirements such as those subject to *Government Auditing Standards*, the firm should identify those clients on the engagement listing.

vi. Limited scope benefit plan audits or other audits in which the firm disclaimed an opinion are considered audits performed under SAS that should be included in the peer review scope.

vii. If the firm performs the financial audit for an entity, and also performs other services for the same entity (such as the employee benefit plan audit or agreed upon procedures engagement), each of the engagements must be separately identified on the listing provided for the peer reviewer.

d. A list of the firm's personnel, showing name, position, and years of experience (i) with the firm and (ii) in total. This list may be abbreviated for small firms or if the team captain is familiar with the reviewed firm.

e. A list of the key quality control personnel such as Human Resources Director, Quality Control Director, and the person responsible for monitoring.

f. Other information requested by the team captain to be provided prior to the commencement of fieldwork.

.14 Have available for the review team when they arrive at the firm's office (commencement date):

a. The firm's documentation demonstrating compliance with its quality control policies and procedures for monitoring since the firm's last peer review

b. All engagements for the year under review, including all applicable documentation required by professional standards and reports issued in connection with the engagements

c. Latest independence representations from firm personnel (if required by the firm's policies and procedures)

d. Documentation of all independence consultations, including the final resolution

e. Documentation regarding the independence of any correspondent firms used during the year under review

f. Personnel files to the extent requested by the team captain

g. Continuing professional education (CPE) records for all personnel for the three most recent educational years

h. Documentation regarding consultations with outside parties on accounting and auditing matters

i. Any communications relating to allegations or investigations of deficiencies (including litigation) in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm since the firm's last peer review year end

.15 The firm should provide a comfortable, adequate working area for the review team and, if necessary, assist in coordinating accommodations for the review team.

.16 The review of the firm's quality control policies and procedures includes interviews of the reviewed firm's management and staff. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated. The review team may perform one-on-one staff interviews or, depending on the size of the firm, focus groups (see section 4700). The team captain will arrange for the scheduling of interviews with selected members of the firm's personnel. The firm should see that this schedule is communicated to the appropriate individuals and that they understand the importance and purpose of the interviews. The review team will endeavor to have these discussions and interviews without disrupting the firm's operations.

.17 The team captain will select certain engagements for review, and request the firm to prepare a profile sheet on each engagement selected. The initial selection of engagements to be reviewed should ordinarily be provided to the reviewed firm no earlier than three weeks prior to the commencement of the peer review procedures at the related practice office or location. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed will be provided to the firm once the review commences and not provided to the firm in advance. Careful and complete preparation of the profile sheets is important for the efficient performance of the peer review.

Copyright © 2019, American Institute of Certified Public Accountants, Inc.

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

a. Governmental—*Government Auditing Standards* (GAS, also known as the Yellow Book), issued by the U.S. Government Accountability Office, requires auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards. Additionally, if the firm performs engagements of entities subject to the Single Audit Act, the peer reviewer must evaluate the compliance audit portion of such an engagement. This may be the same or different engagement that included the audit of the financial statements subject to GAS.

b. Employee Benefit Plans—Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).

c. Depository Institutions—The 1993 FDIC guidelines implementing the FDIC Improvement Act of 1991 (FDICIA) require auditors of federally insured depository institutions having total assets of $500 million or greater at the beginning of its fiscal year to have a peer review that includes the review of at least one audit of an insured depository institution subject to the FDICIA.

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

e. Service Organizations—Due to the reliance on Service Organization Control Reports®, particularly SOC 1 and SOC 2 reports, there is a significant public interest in examinations of service organizations relevant to user entities. Therefore, if a firm performs an examination of one or more service organizations and issues a SOC 1 or SOC 2 report, at least one such engagement should be selected for review.

In complying with the requirements in the previous list, peer reviewers will ensure that the engagements selected include a reasonable cross section of the firm's accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain this risk weighted cross section. See Interpretation No. 63-1 of paragraph .63 in section 1000 (sec. 2000 question 63-1), for more information.

.19 The review of engagements will include the review of financial statements, accountants 'reports, accounting and audit documentation, and correspondence, as well as discussions with personnel of the reviewed firm.

.20 Appendix A (par. .36) was developed to assist firms in preparing for the review. The completion and availability of all items discussed in appendix A helps ensure an efficient review.

During the Review

.21 The designated liaison should meet with the review team at the beginning of the review to orient them to firm policies and procedures, introduce them to appropriate personnel, and provide them with a tour of the office.

.22 During the course of the review, the review team may find it necessary to discuss matters with the appropriate firm personnel. Firm personnel should be asked to be available to the review team as necessary during the course of the review.

Completion of the Review and Firm Responses

.23 Prior to issuing his or her report or finalizing MFC and FFC form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting. The team captain should ordinarily be physically present at the closing meeting, unless the System Review is performed at a location other than the reviewed firm's office. The closing meeting may also be attended by representatives of the administering entity, the

board, AICPA staff, or other board-authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):

a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.

b. The firm's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.

c. Other suggestions and observations for the firm to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

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

a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the firm's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.

b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the reviewed firm the implications of these steps on the acceptance and completion of the peer review and the reviewed firm's enrollment in the program.

c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable (see interpretations).

.25 The firm should respond to all matters communicated on an MFC form, findings communicated on an FFC form and deficiencies, or significant deficiencies communicated in the peer review report. The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the team captain as soon as practicable to allow the team captain sufficient time to assess the firm's response prior to the exit conference. Delays in responses by the firm may result in a delay to the exit conference and a delay in submission of the review workpapers to the administering entity, resulting in the firm's becoming past due. Past due reviews may have AICPA membership implications, state board licensing implications, and impacts qualifications of being a peer reviewer, among others consequences.

.26 The reviewed firm's response on an MFC should take into consideration any risks in the firm's system of quality control identified as part of the team captain's completion of 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, and section 4500, *Guidelines for Review of Quality Control Policies and Procedures For A Sole Practitioner with No Personnel*, or section 4600, *Guidelines for Review of Quality Control Policies and Procedures for Firms with Two or More Personnel*. Responses such as "oversight" or "isolated" are not appropriate without further investigation. Accordingly, the firm's response should include an assessment of systemic cause and sufficient detail for the reviewer to understand how they arrived at their conclusion.

.27 If the reviewed firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. The reviewed firm should address the following in its response with respect to each finding, deficiency, and significant deficiency:

a. Nonconforming engagements, including the following:

i. The firm's actions taken or planned to remediate the engagements identified on the FFC form or in the report as nonconforming

Copyright © 2019, American Institute of Certified Public Accountants, Inc.

ii. The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control (see interpretations)

b. Systemic issues unrelated to nonconforming engagements:

i. The firm's actions taken or planned to remediate findings and deficiencies in the firm's system of quality control

c. Timing of the remediation

.28 The reviewed firm's responses are then submitted by the team captain with the applicable working papers to the administering entity. If the reviewed firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response.

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

.30 The firm is required to make specific representations as noted in paragraph .208, "Appendix B, Considerations and Illustrations of Firm Representations," of section 1000. Each representation must be included in the representations letter. Additional representations may be made to indicate that no such conditions exist. The written representations should be addressed to the team captain performing the peer review (for example, "To John Smith, CPA"), presented on firm letterhead, and signed on behalf of the firm. The written representations should be signed by individual members of management whom the team captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control (this should not be a firm signature). Such members of management normally include the managing partner and partner or manager in charge of the firm's system of quality control. Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the peer review report or other peer review documents, the representations should be dated the same date as the peer review report. The firm representative should be knowledgeable about the types of engagements selected by the peer review team, especially the must select engagements specifically mentioned in Interpretation 63-1 (see paragraph .18 of this section). See appendix D of this section for peer review scenarios and examples of firm representation letters tailored specifically for system reviews that include engagements subject to *Government Auditing Standards* and the Single Audit Act.

.31 Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge each other on such matters. If, after discussion with the team captain, the reviewed firm disagrees with one or more of the findings, deficiencies, or significant deficiencies, the reviewed firm should contact the administering entity for assistance in the matter. For more information on disagreements, please review paragraph .93 of section 1000.

.32 It is the firm's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, the AICPA Peer Review Board encourages the reviewed firm to work with the team captain to develop remedial actions that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the peer review. Experience shows that improvement is more likely to occur when the letter of response describes specific actions to be taken. Therefore, a response limited to the firm's comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

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

.34 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. As part of the acceptance process, the firm may be requested to perform remedial, corrective actions related to the deficiencies or significant deficiencies noted in the peer review report or comply with implementation plans related to findings, in addition to those remedial actions described by the reviewed firm. If a firm does not perform the required actions, this may delay

completion of the firm's peer review and could jeopardize the firm's enrollment in the program. Disciplinary actions (including those that can result in the termination of a firm's enrollment in the program and the subsequent loss of membership in the AICPA, if applicable, and some state CPA societies by its partners and employees) will be taken only for a failure to cooperate, failure to correct inadequacies, or when a firm is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

Fees and Expenses

.35 Administering entities approved by the AICPA Peer Review Board are authorized to establish dues or registration fees within their individual jurisdictions to fund the administration of the AICPA Peer Review Program.

.36 The AICPA Peer Review Board has adopted procedures (see Interpretation No. 5h-1, "Cooperating in a Peer Review" for dropping a firm's enrollment in the AICPA Peer Review Program for failure to pay fees charged by an administering entity of the AICPA Peer Review Program.

.37 The AICPA Peer Review Board has adopted a resolution for dropping a firm's enrollment in the AICPA Peer Review Program for failing to pay the fees and expenses related to the administration of the program that have been authorized by the governing body of an administering entity.

Copyright © 2019, American Institute of Certified Public Accountants, Inc.

Appendix A

Checklist for Firms Undergoing a System Review

(for System Reviews commencing on or after January 1, 2009)

.38

The following checklist is intended to assist a firm in preparing for the peer review team's visit. The completion and availability of all items discussed will help to ensure an efficient review.

		Initial	Date
1.	Verify that the team captain is qualified to perform the review.	_____	_____
2.	Obtain and return the engagement letter.	_____	_____
3.	Set the dates for the performance of the peer review and confirm the 12-month period to be covered by the review with the team captain.	_____	_____
4.	If requested to do so, arrange for hotel accommodations for the review team and communicate details to the team captain.	_____	_____
5.	Submit the firm's background information, including the background or scheduling form provided to the administering entity, to the team captain.	_____	_____
6.	If the firm contemplated excluding engagement(s) or aspect(s) of functional area(s), verify that it notified the team captain in a timely manner and submitted a written statement to the administering entity indicating		
	a. it plans to exclude an engagement(s) or aspect(s) of functional area(s) from the peer review selection process;		
	b. the reasons for the exclusion; and		
	c. it is requesting a waiver for the exclusion.		
	The waiver should ordinarily be obtained prior to commencement of the review. The documents should be kept with peer review documentation.	_____	_____
7.	Provide the following to the team captain prior to the commencement of fieldwork:		
	a. The firm's quality control document effective for the peer review year	_____	_____
	b. Relevant manuals, checklists, partner resumes, and background information	_____	_____
	c. A list of the firm's personnel, showing name, position, and years of experience (i) with the firm and (ii) in total	_____	_____
	d. A list of the key quality control personnel such as Human Resources Director, Quality Control Director, and the person responsible for monitoring	_____	_____
	e. A copy of the inspection reports for each of the three years subsequent to the prior peer review and any relevant communications about those inspections such as consultant review reports	_____	_____
	f. Other information requested by the team captain to be provided prior to the commencement of fieldwork	_____	_____
8.	Prepare separate schedules of the firm's audit, review, preparation, other attestation, and compilation engagements. The schedules should include the following for each engagement:		
	a. Total number of auditing or accounting hours (actual, if available, or estimated) (the hours should not include non-attest services [including tax, bookkeeping, or other assistance] provided in connection with the service)	_____	_____

	Initial	Date
b. Partner-in-charge	_____	_____
c. Nature of the client's business or an indication of the industry in which the client operates	_____	_____
d. Period reported on or year-end date of the financial statements (report date for financial forecasts or projections and agreed upon procedures)	_____	_____
e. Whether or not the engagement is an initial engagement	_____	_____
9. On the schedule of engagements, peer review must select and must cover engagements should be listed separately (Interpretations 63-1 and 63-3), including: audits of employee benefit plans subject to ERISA, engagements performed under *Government Auditing Standards* (including single audits), audits of depository institutions with $500 million or more in total assets, broker-dealers and examinations of service organizations (SOC 1 and SOC 2 engagements) and state and local governments. If multiple engagements are performed for the same client, they should be identified separately. In addition, engagements that involve other offices of the firm or that were performed with other firms' assistance should be identified.	_____	_____
10. Prior to the review, the review team will ask to interview members of the firm. Arrange for the selected individuals to be available.	_____	_____
11. Complete working papers, reports, and the related financial statements for all the firm's engagements should be available for review.	_____	_____
12. All personnel files should be available for review.	_____	_____
13. All independence representations obtained during the year should be available for review (if required by the firm's policies and procedures).	_____	_____
14. Documentation regarding the independence of any correspondent firms used during the year should be available for review.	_____	_____
15. Documentation supporting resolution of any independence consultations during the year should be available for review.	_____	_____
16. Have available appropriate CPE records for all personnel for the three most recent educational years.	_____	_____
17. Have available communications relating to allegations or investigations of deficiencies (including litigation) in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm since the firm's last peer review year end.	_____	_____
18. Documentation regarding consultations with outside parties on accounting and auditing matters should be available for review.	_____	_____
19. Make available the firm's monitoring reports or related information since the last peer review, including internal inspection report, that documents the scope of the monitoring procedures, the findings, and any recommendations for corrective action.	_____	_____
20. Take appropriate measures, if any, to satisfy the firm's obligations concerning client confidentiality.	_____	_____

Copyright © 2019, American Institute of Certified Public Accountants, Inc.

Appendix B

An Illustration of a List of Accounting and Auditing Engagements[1]

.39

Client Code	*Period Covered*	*Level of Service Provided (LS)*[2]	*Initial Eng.*	*Must-Select (MS)*[3]	*Other Practice Areas/ Industries (O)*[4]	*Foreign Ops*	*Subject to SEC Independence Rules (SEC)*	*Name of Partner*	*Approx. Total Hours*[5]
10001	9/30/2019	25	N	13	150	N	N	White	500
10002	6/30/2019	25	N	5	150	N	N	White	210
10003	10/31/2019	9	Y		190	Y	Y	Smith	350
10004	6/30/2019	9	N	7	125	N	N	Jones	275
10005	6/30/2019	9	N	380	380	N	N	Watson	110
10006	12/31/2019	9	N		325	N	N	Watson	245
10007	12/31/2019	14	N	440	440	N	N	Smith	150
10008	9/30/2019	14	N		240	N	Y	Smith	100
10009	6/30/2019	30	N		260	N	N	Smith	110
10010	6/30/2019	40	Y		260	N	N	Smith	20
20001	12/31/2019	30	Y		165	N	N	Smith	100
20002	3/31/2019	26	N	5	120	N	N	White	125
20003	4/30/2019	30	N		250	N	N	Jones	45
20004	3/31/2019	40	N		250	N	N	Jones	35
20005	6/30/2019	40	N		250	N	N	Jones	20
30001	12/31/2019	62	N		165	N	N	Smith	50
30002	3/31/2019	45	N		250	N	N	Jones	40
30003	6/30/2019	45	N		250	N	N	Jones	60
30004	9/30/2019	61	Y		312	N	N	Jones	40
30005	4/30/2019	61	Y		195	N	N	Jones	50
30006	12/31/2019	16	N		440	N	Y	Smith	10
30007	12/31/2019	50	N		217	N	N	White	80
30008	12/31/2019	55	N		217	N	N	White	20
		Total							**2745**

[1] Ordinarily include engagements with reports with financial statement periods ended during the peer review year.

[2] Use the codes set forth in "Codes Used in PRIMA" article in the PRIMA knowledge base "Help" screen at https://aicpa.org/prima.

[3] See footnote 2.

[4] See footnote 2.

[5] Total hours should include only the time from the completed trial balance to the issuance of the accountant's or auditor's report on the financial statements. Total hours do not include clerical, computer entry, payroll services, or taxes.

Appendix C

Timeline of Peer Review Process and Significant Events

.40

See below for a timeline of the approximate timing of significant events occurring during the peer review process. The timeline is intended to highlight that the peer review process requires an investment of time by both the firm and the reviewer. A brief summary of the guidance for each of the significant events is below. For the complete guidance for each of these events, refer to the standards and interpretations.

Enrollment in the Peer Review Program

By the report date of the firm's first reviewable engagement, a firm should complete and submit the peer review enrollment materials to the administering entity. Once enrolled, a due date for the firm's initial review is assigned, generally 18 months from the report date of the first engagement causing the firm to be enrolled in the program.

Scheduling the Review

Approximately six to nine months before a firm's review due date, the administering entity will send a firm scheduling form to complete and submit in order for the review to be scheduled. To provide sufficient time to the firm, the peer review should ordinarily be conducted within three to five months after the end of the year to be reviewed. Background information from the completed scheduling forms, such as composition of practice and selected peer reviewer, is entered into an AICPA database accessible by administering entities to determine whether the reviewer is qualified. The administering entity is responsible for approving a reviewer and once approved, the peer review is scheduled, usually within two months after the scheduling forms are received. Approval must be obtained prior to commencement of the review.

Performing the Review

When all requested documents are received by the reviewer from the reviewed firm, they will be evaluated to determine the appropriate report. A closing meeting will be held in which the reviewer will provide preliminary results of the peer review to include, but not be limited to, matters, findings, deficiencies, and significant deficiencies. The closing meeting may need to occur at least 30 days prior to the firm's due date to allow sufficient time for the firm to determine appropriate remediation with respect to matters identified in the review and for the team captain/review captain to assess the impact of the firm's responses on the peer review, if any. The reviewer will then schedule an exit conference prior to, but no later than, the peer review due date. During the exit conference, the final peer review results will be discussed as well as the process following the exit conference, including Report Acceptance Body (RAB) evaluation and acceptance. The peer reviewer is responsible for submitting the peer review working papers to the administering entity and for issuing the report to the firm within 30 days of the exit conference or by the firm's peer review due date, whichever is earlier. Depending upon the results of the review, for example when there were no matters noted that require follow up by the firm, the closing meeting and exit conference may be the same date.

Administrative and Technical Reviews

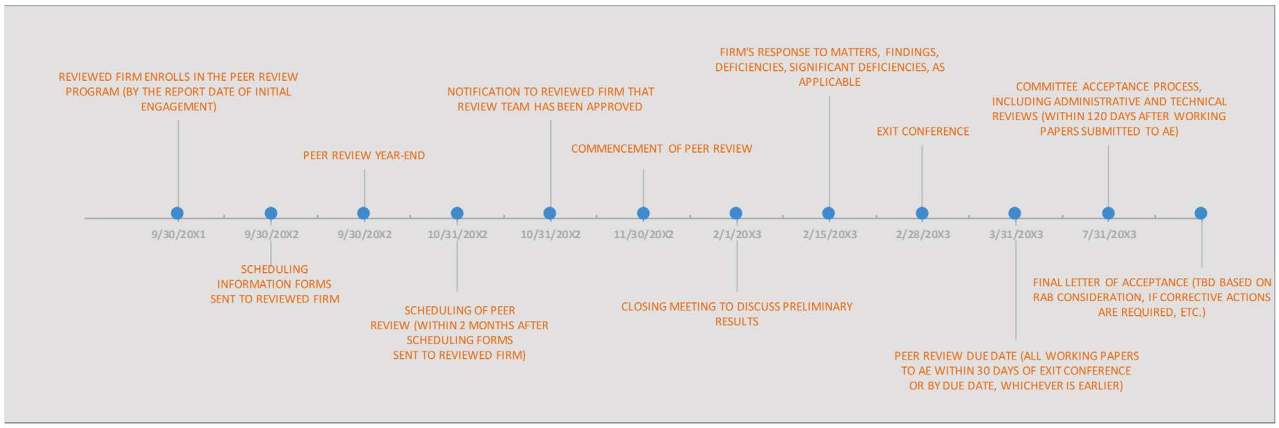
Once the reviewer has completed the review and all materials have been submitted to the administering entity, the working papers will go through an administrative and technical review. The administrative review ensures all required documents from the reviewer are received and complete. During the technical review, the working papers submitted by the reviewer are evaluated to determine whether the review has been conducted in accordance with the Standards and whether the firm has responded to any matters, findings, deficiencies or significant deficiencies in an appropriate manner.

Review Evaluation, Acceptance, and Completion

Upon completion of the technical review, reviews are presented for consideration of acceptance at the RAB meeting with attention given to team captain/review captain and technical reviewer recommendations. Peer reviews are presented ordinarily within 120 days after working papers are received by the administering entity. The RAB reviews the report and applicable supporting documentation and determines if the review can be accepted or if additional conditions must be met. If no corrective actions are necessary, the completion date of the review is the acceptance date. If corrective actions are necessary, the review is considered completed when the firm has performed the corrective actions to the RAB's satisfaction.

Copyright © 2019, American Institute of Certified Public Accountants, Inc.

Example Timeline of Peer Review Process



Appendix D

Firm Representation Letters for System Reviews That Include Engagements Subject to *Government Auditing Standards* and the Single Audit Act[1]

.41

Firm representation letters for system peer reviews that include engagements subject to *Government Auditing Standards* (GAS) and the Single Audit Act should consider the following situations and be tailored accordingly:

Scenario 1. Firms that perform audits subject to both GAS and the Single Audit Act.

Scenario 2. Firms that perform engagements subject to GAS only, in addition to audits subject to both GAS and the Single Audit Act.

The scenarios and illustrations that follow are not meant to address every situation and every combination of engagements selected and reviewed. Firm representation letters should be appropriately tailored to reflect engagements performed, selected, and reviewed.

Scenario 1 (firm performs engagements subject to both GAS and the Single Audit Act)

The firm of Smith & Jones, LLP performed audits of a not-for-profit entity that is subject to *Government Auditing Standards* and the Single Audit Act. This firm also audited employee benefit plans. The financial statements of a not-for-profit entity an employee benefit plan fall into the firm's peer review year and both audit engagements were selected and reviewed by the firm's peer reviewer (Bobbye Kelly, CPA). The peer review year end was June 30, 20XX and the exit conference was conducted on October 31, 20XX. The peer review report rating was pass.

Firm Representation Letter (no significant matters to report to the team captain)

October 31, 20XX

To Bobbye Kelly, CPA:

We are providing this letter in connection with the peer review of Smith & Jones, LLP as of the date of this letter and for the year ended June 30, 20XX.

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

We have provided a list of all engagements to the team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of broker-dealers, and examinations of service organizations [SOC 1® and SOC 2® engagements], as applicable. We understand that failure to properly include engagements subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have completed and issued the following must-select engagements and, to the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act[2]
2. Audits of employee benefit plans

[1] The term Single Audit Act as it's used in this guidance is meant to refer to single audits performed under Uniform Guidance as appropriate.

[2] This wording is used when the reviewer satisfied the requirement to review an engagement performed in accordance with *Government Auditing Standards* (GAS) and an engagement performed under the Single Audit Act by reviewing one engagement.

Copyright © 2019, American Institute of Certified Public Accountants, Inc.

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

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

Sincerely,

William T. Jones, CPA
Managing Partner

Scenario 2 (firm performs engagements subject to GAS and the Single Audit Act as well as engagements subject only to GAS)

The firm of Smith & Jones, LLP performed audits of local governments that are performed in accordance with *Government Auditing Standards*. The local governments do not expend Federal funds. The firm also audited employee benefit plans and not-for-profit entities that are subject to *Government Auditing Standards* and the Single Audit Act. The financial statements of the local governments, the employee benefit plans, and the not-for-profit entities fell into the firm's peer review year. After consulting Interpretation 63-1, the peer reviewer (Bobbye Kelly, CPA) selected a local government and an employee benefit plan and also decided to review only the Single Audit portion of an audit of a not-for-profit entity. The peer review year end was June 30, 20XX, and the exit conference was conducted on October 31, 20XX. The peer review report rating was pass.

Firm Representation Letter (no significant matters to report to the team captain)

October 31, 20XX

To Bobbye Kelly, CPA:

We are providing this letter in connection with the peer review of Smith & Jones, LLP as of the date of this letter and for the year ended June 30, 20XX.

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

We have provided a list of all engagements to the team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of broker-dealers, and examinations of service organizations [SOC 1 and SOC 2 engagements], as applicable. We understand that failure to properly include engagements subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have completed and issued the following must-select engagements and, to the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Compliance audits under the Single Audit Act[3]
3. Audits of employee benefit plans

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

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

Sincerely,

William T. Jones, CPA
Managing Partner

---

[3] This wording is used when the reviewer satisfied the requirement to review an engagement performed in accordance with *Government Auditing Standards* (GAS) and an engagement performed under the Single Audit Act by reviewing an audit performed in accordance with GAS and only the single audit portion of a separate engagement. See Interpretation 63-1.

Copyright © 2019, American Institute of Certified Public Accountants, Inc.