



Peer Review
Program

Questions and Answers:

Independence considerations for peer reviews

As of May 1, 2022

AICPA Peer Review Program

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Review of a firm's system of quality control

(Q1) Question. Firm A is engaged by Firm B to perform a quality control document review and a preliminary quality control procedures review. Could Firm A then be engaged to perform a peer review of Firm B?

(A1) Answer. Yes. Quality control document reviews and preliminary quality control procedures reviews would not impair independence unless the services would cause Firm A to effectively become a part of Firm B's system of quality control.

Both firms would need to consider and assess the extent of procedures performed and the results of those procedures to conclude whether Firm A had effectively designed the system of quality control of Firm B. This assessment needs to be made by both firms prior to the commencement of the peer review, including consultation with the administering entity if needed.

(Ref: par. .16e of PR-C section 200)

Pre-issuance reviews

(Q2) Question. Firm B wants to engage Firm A to perform its peer review. Can Firm A perform the peer review of Firm B if Firm A performed a pre-issuance review of one of Firm B's reports and accompanying financial statements for an audit engagement with a period ending in the year immediately before or during Firm B's peer review year?

(A2) Answer. No. A reviewing firm is not permitted to perform a pre-issuance review on an accounting or auditing engagement with a period end (or, for financial forecasts, projections, and agreed-upon procedures engagements, a report date) within the year immediately before or during the reviewed firm's peer review year.

(Ref: par. .16f of PR-C section 200)

Services performed for reviewed firms

(Q3) Question. Firm A audits the financial statements of Firm B's pension plan. Could Firm A perform a peer review of Firm B?

(A3) Answer. Yes, if the fees incurred for the audit are not material to either firm. An audit of financial statements is a customary service of an accounting firm.

(Ref: par. .16d of PR-C section 200)

(Q4) Question. A partner in Firm A serves as an expert witness for Firm B or for a party opposing Firm B. Are Firms A and B independent of each other?

(A4) Answer. Yes, if the fee is not material to either firm and the outcome of the matter, if adverse to Firm B, would not have a material effect on its financial condition or its ability to serve clients.

(Ref: par. .16f of PR-C section 200)

(Q5) Question. Firm A is engaged to perform the peer review of Firm B. Firm B's staff attends CPE programs developed by Firm A. Can Firm A perform a peer review of Firm B?

(A5) Answer. Yes, if Firm A has not effectively become part of Firm B's system of quality control. If Firm A, or any affiliates of or entities related to Firm A, develop, and customize CPE specifically to Firm B's needs, both firms would need to assess the extent and degree of customization to determine whether Firm A has become a part of Firm B's system of quality control or had a significant enough impact on that system such that Firm A's independence would be impaired. This assessment needs to be made by both firms prior to the commencement of the peer review and Firm B may consult with the administering entity if needed. Factors to consider include, but are not limited to the following:

- the degree of customization,
- the significance of the programs to Firm B's system of quality control such as the extent of hours relative to all of Firm B's CPE programs,
- whether Firm A was involved in determining the type of CPE programs that Firm B needs, and so on.

Based on the factors considered, if the nature of Firm A's relationship with Firm B effectively makes Firm A part of Firm B's system of quality control, Firm A's independence is impaired for the first peer review immediately subsequent to the training provided.

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

(Ref: par. .16e of PR-C section 200)

(Q6) Question. Firm A occasionally consults with Firm B with respect to specific accounting, auditing, or financial reporting matters. Are Firms A and B independent of each other?

(A6) Answer. Yes, unless the frequency and extent of the consultation is such that Firm B is an integral part of Firm A's consultation process.

(Ref: par. .16e of PR-C section 200)

Reciprocal peer reviews

(Q7) Question. Firm A is engaged to perform the peer review of Firm B. Can Firm B then perform a peer review of Firm A?

(A7) Answer. No. Firm B would not be permitted to perform the next peer review of Firm A because that would be a reciprocal peer review.

(Ref: par. .16a of PR-C section 200)

(Q8) Question. Firm A performs a peer review of Firm B. Subsequently, Firm C performs a peer review of Firm B, and Firm D of Firm A. Would Firm B be independent to be review Firm A?

(A8) Answer. Yes. Although the standards state that reciprocal peer reviews are not permitted, that provision is intended only to prohibit back-to-back peer reviews when each firm has not had an intervening peer review by another firm or team. However, the effect on independence of other relationships and possible resulting loss of the appearance of independence could be considered by the administering entity as part of its oversight responsibilities.

(Ref: par. .16a and .17 of PR-C section 200)

(Q9) Question. A manager from Firm A served as a team member on the most recent peer review of Firm B. Can a reviewer from Firm B serve on the peer review team of Firm A?

(A9) Answer. No, because that would be a reciprocal peer review.

(Ref: par. .16a of PR-C section 200)

(Q10) Question. Can any individual from Firm A be engaged by Firm B to perform a peer review of Firm B and then be engaged in the immediate subsequent year to conduct an inspection of Firm B's accounting and auditing practice or perform a consulting review?

(A10) Answer. Yes. However, individuals from Firm A would not be eligible to perform Firm B's subsequent peer review if the monitoring of Firm B's accounting and auditing practice was performed for the year immediately before or during its peer review year.

(Ref: par. .16a of PR-C section 200)

Firms providing services together or using the work of another firm (including associations and networks)

(Q11) Question. Firm A included the qualifications of Firm B in a proposal for one or more specific engagements. Could either firm perform a peer review of the other following a successful proposal?

(A11) Answer. No, unless any fees paid to Firm B are not material to either of the firms; the firms do not share directly or indirectly, or participate in, the profits of the other; the firms do not share fees, office facilities, or personnel; the firms do not have joint ownership of a for-profit entity; and the firms do not exercise any direct or indirect management control over the professional or administrative functions of the other.

(Ref: par. .16d and .17 of PR-C section 200)

(Q12) Question. Regarding the independence requirements for an association and its member firms, what would be *objective and quantifiable* with respect to representations made in advertisements by an association of CPA firms, such as in promotional materials like brochures, pamphlets, and websites?

(A12) Answer. Representations made in advertisements by an association of CPA firms would be considered *objective and quantifiable* provided that the association of CPA firms maintains documentation to support the representations and such documentation is made available for review by the Peer Review Board (board) or its designee. Currently, the National Peer Review Committee is designated by the board to consider and approve all Association Information Forms, which include general information about the association, independence matters, and whether the association requests to be approved to assist its members in formation of review teams, provide technical assistance to such review teams, or do both.

For example, support for objective and quantifiable information needs to be made available in the following situations:

- If an association of CPA firms advertises that it is in the top 20 associations in terms of the number of offices, personnel, or revenue, some form of documentation needs to be provided in support of these numbers.
- If an association of CPA firms advertises that its members provide professional accounting and auditing services to a designated number of industry clients in a certain geographic area, some form of client listing needs to be maintained in support of the representation.
- If an association of CPA firms advertises that each of its member firms have passed peer review, letters from the entities accepting the peer review documents of those firms need be maintained.

Representations are not permitted by an association of CPA firms in its advertisements that designate the association or its member firms as “the best,” “the finest,” “uniquely qualified,” “prestigious,” “elite,” or other similar language. These superlative descriptions are generic words and terms that are too subjective. In this example, such representations in advertisements by an association of CPA firms cannot be readily supported by any form of documentation that can be reviewed.

(Ref: par. .48b of PR-C section 100)

(Q13) Question. A group of firms places an advertisement in a trade journal. The advertisement indicates the number and geographical location of the member firms and states that its members provide professional accounting and auditing services to over 2,500 industry clients nationwide and that each of the member firms passed its most recent peer review. A toll-free telephone number or website is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

(A13) Answer. Yes, because the representations are objective and quantifiable, provided that the group is not a network as defined by the AICPA Code of Professional Conduct; the group has submitted the Association Information Form (AIF) to the board; and the group has been notified by the board that the AIF was accepted.

(Ref: par. .48b, .49, and .52 of PR-C section 100)

(Q14) Question. Certain members of an association (that is, a parent association) may form a partnership or sub-association, which is a grouping of association member firms for the purpose of cooperating to enhance the firms' capabilities to provide professional services. Can members of the sub-association perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association?

(A14) Answer. Although a member of a sub-association cannot peer review another member of the same sub-association, the existence of a sub-association by itself would not disqualify members of the sub-association from performing peer reviews of nonaffiliated member firms of the parent association. However, members of a sub-association are not permitted to perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association if the parent association and sub-association belong to the same network as defined by the AICPA Code of Professional Conduct.

(Ref: par. .48c and .52 of PR-C section 100)

(Q15) Question. Is independence impaired when the reviewers' firm and the firm subject to peer review have arrangements with the same non-CPA owned entity (including all entities owned or controlled by a common parent company) where the partners of both firms are also employees of that non-CPA owned entity and remit revenues or profits, or both, to the non-CPA owned entity for payment of the lease of employees, office facilities, equipment, or other services provided by the non-CPA owned entity?

(A15) Answer. Yes, independence is impaired, and the firms involved with the non-CPA owned entity are precluded from participating in the peer review of one another or of other firms related to the non-CPA owned entity.

(Ref: par. .20 of PR-C section 100)

(Q16) Question. Firm A and Firm B have shared leasing arrangements of office facilities for the last several years. Due to the growth of both firms, Firm B moved into new offices on January 1, 20X4. In March 20X6, Firm A engaged Firm B to perform the peer review of Firm A. Firm A's peer review year-end is December 31, 20X5. Can Firm A perform the peer review of Firm B?

(A16) Answer. Yes, because the firms did not have shared leasing arrangements of office facilities within the current peer review year and any subsequent periods thereafter.

(Ref: par. .20 of PR-C section 100 and .16d of PR-C section 200)

(Q17) Question. Firm A purchases an accounting and auditing manual developed by an association that it belongs to as its primary reference source. Personnel from Firm B who are also peer reviewers aided the association with the development of the manual by authoring significant sections of the manual. The association receives annual approval to form review teams for its member firms. Can the association include reviewers from Firm B on the review team to peer review Firm A?

(A17) Answer. Yes, as long as the following personnel from Firm B are not included on the review team:

- Personnel directly involved in the development or maintenance of the association's accounting and auditing manual (such as those who authored sections of the manual)
- Personnel who report to those who were directly responsible for the development or maintenance of the manual
- Personnel who receive more than a *de minimus* amount of fees or other monies from the total revenues generated by the sale of the manual

(Ref: par. .48 and .49 of PR-C section 100)

(Q18) Question. ABC, Inc. (an affiliate of Firm A) is a provider of audit software, including tools for various industries. Firm B purchases an industry-specific software tool from ABC, Inc., to assist with performing audit engagements for a niche industry. The niche industry represents an insignificant portion of Firm B's overall audit and accounting practice, and Firm B does not purchase any other practice aids, software, or tools from ABC, Inc. Can Firm A perform the peer review of Firm B?

(A18) Answer. Yes, unless the niche industry grows to become a significant part of Firm B's overall practice and continues to use the same audit tool. In this situation, the software tool is integral to Firm B's system of quality control, and Firm A's independence would be impaired.

(Ref: par. .20 of PR-C section 100 and .16e of PR-C section 200)

(Q19) Question. Reviewers from Firm A provide technical consultation to a third-party quality control material provider. The extent of the consultation entails reviewing portions of various guides for technical accuracy and providing feedback (if any) to the provider. The reviewers have no control over whether their feedback is addressed or how it impacts the end products that are ultimately marketed as the guides. Firm B uses these guides developed by the provider as an integral part of its system of quality control. Can Firm A perform the peer review of Firm B?

(A19) Answer. Yes, Firm A would be independent for purposes of conducting the peer review of Firm B because the extent of the reviewers' contributions does not make them a part of the provider's system of quality control. However, when reviewers provide consulting or other services to third-party providers, they should assess whether their individual contributions were sufficiently significant to make them a part of the provider's system. Similarly, if the reviewers from Firm A authored or edited portions of a third-party provider's guides or other materials, they should also assess the degree and impact of their contributions.

(Ref: par. .20 of PR-C section 100 and .16c of PR-C section 200)