



**Peer Review Standards Update No. 1,  
*Omnibus Enhancements and Technical  
Corrections***

*(Amends AICPA Standards for Performing and  
Reporting on Peer Reviews, Effective for Peer  
Reviews Commencing on or After May 1, 2022)*

**As Approved by the Peer Review Board  
on May 3, 2023**

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## Explanatory Memorandum

### Introduction

This memorandum provides a summary of Peer Review Standards Update (PRSU) No. 1, *Omnibus Enhancements and Technical Corrections*, which amends the AICPA Standards for Performing and Reporting on Peer Reviews, effective for peer reviews commencing on or after May 1, 2022 (standards) issued by the AICPA Peer Review Board (board).

### Background

The AICPA Peer Review Program (program) monitors the quality of reviewed firms' accounting and auditing engagements and evaluates the systems of quality control under which those engagements are performed. Participation in the program is mandatory for AICPA membership, as explained in paragraph .03 of PR-C section 100, *Concepts Common to All Peer Reviews*,<sup>1</sup> and peer reviews are now required for licensure in nearly all state licensing jurisdictions.

### Summary of Proposed Changes

Corrections are made to various paragraph references for accurate cross-referencing, and the following summary represents additional revisions for clarification and technical accuracy.

#### PR-C Section 100, *Concepts Common to All Peer Reviews*

- Paragraph .09 and paragraph .A11 are revised to further clarify the scope of engagements under PCAOB standards that require a system review.
- Paragraph .11 is revised to further clarify RAB member voting responsibilities for consent agenda items.

#### PR-C Section 200, *General Principles and Responsibilities for Reviewers*

- Paragraph .05f is revised to further clarify the requirement related to reviewer qualifications.

#### PR-C Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*

- Paragraphs .05 and .06 are revised with reference to additional application and other explanatory material that describes that, in rare circumstances, exceptions to reviewer qualifications may be approved by the AICPA prior to the commencement of a review. This change is for consistency with extant paragraph .A1 in section 200.
- Paragraph .06b is revised to further clarify the requirement for reviewers to have current involvement in must-select engagements, when applicable.
- Paragraph .17 is revised to further clarify the requirement for reviewers to assess the design of a firm's quality control policies and procedures as part of planning a peer review.

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<sup>1</sup> All PR-C sections can be found in AICPA *Professional Standards*.

- Paragraph .36 is revised to introduce a new paragraph .A32 of application and other explanatory material indicating that reviewers may consider appendix A in section 220 when evaluating certain engagements in system reviews.
- Paragraph .71 is revised to further clarify the requirement for additional documents team captains are to submit when a review is administered by the National Peer Review Committee.
- Paragraph .A69.03 (in appendix C) is revised to further clarify the must-select requirement that reviewers are to select an audit of financial statements performed according to government auditing standards.
- Paragraph .A69.09 (in appendix C) is revised to remove the statement that indicates priority in a reviewer's engagement selection should be given to SOC 1® engagements when the population of engagements includes both SOC 1 and SOC 2® engagements. Instead, reviewers are expected to consider whether selecting one or both engagements is appropriate based on identified peer review risks.
- Paragraph .A70 (Illustration 5 in exhibit B) is revised in the peer reviewer's responsibility section for consistency with language used in other peer review report illustrations.

PR-C Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*

- A new paragraph .06 is added to introduce a requirement that review captains are to meet training requirements established by the board, with reference to additional application and other explanatory material that describes in rare circumstances, exceptions to reviewer qualifications may be approved by the AICPA prior to the commencement of a review. This change is for consistency with extant paragraph .A1 in section 200.
- Paragraph .33 is revised to use phrasing consistent with a similar requirement for peer review reports in section 210, describing a firm's responsibility for designing and complying with a system of quality control.
- Paragraph .35 is added to introduce a requirement for review captains to submit additional documentation when an engagement review is administered by the National Peer Review Committee. This change is for consistency with the extant requirement for system reviews in paragraph .71 of section 210.
- Paragraphs .A7 and .A8 are revised to further clarify that matters are to be disposed of as either a finding or deficiency.
- Paragraph .A29 (appendix A) is revised to include an additional example of noncompliance that would result in a deficiency when materiality is not documented on review engagements and to further clarify section headings to state whether the example matters would generally result in a finding or a deficiency.

PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms*

- Paragraph .20 is revised to further clarify the requirement for reviewed firms when resigning from the program.

- Paragraph .A15 is revised to further clarify the availability of information in the AICPA's public files for firms that are no longer enrolled.
- Paragraph .A23 is revised to further clarify circumstances applicable to reviewed firms when resigning from the program.

PR-C Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*

- Paragraph .16c is revised to further clarify the requirement for firm representations related to known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies
- Paragraph .A26 (exhibit A) is revised to include footnotes describing instances when firm representations may be tailored.

PR-C Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*

- Paragraph .16c is revised to further clarify the requirement for firm representations related to known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies
- Paragraph .A19 (exhibit A) is revised to further clarify the content of the firm representation letter that describes the scope of engagements under PCAOB standards. This change is for consistency with the revision previously described in paragraph .09 of section 100.

PR-C Section 400, *General Principles and Administration Responsibilities*

- Paragraph .21*b* is revised to further clarify qualifications of report acceptance body (RAB) members.
- Paragraph .21*d* introduces additional application and other explanatory material to provide consideration for administering entities (AEs) when exceptions to the requirement may apply. This change is for consistency with extant paragraph .A1 in section 200.
- Paragraph .25*b* is revised to further clarify the qualifications of RAB members with must-select experience.
- Paragraph .45 is revised to modify the requirement for technical reviewers to obtain specific training in single audit engagements.
- Paragraph .45*g* introduces additional application and other explanatory material to assist AEs with evaluating whether a technical reviewer has substantially met the requirement to annually participate in a peer review.
- Paragraph .A27 is revised to further clarify the role of a consultant when such individuals are used in RAB meetings to meet the requirement for must-select experience.
- Paragraph .A44 is revised to include the most current examples of familiarity threat policies and procedures.

#### PR-C Section 410, *The Report Acceptance Process*

- Paragraphs .14 and .15 are revised to relocate the examples for delayed or deferred acceptance to application and other explanatory material paragraphs .A8 and .A12, respectively.

#### PR-C Section 420, *Corrective Actions and Implementation Plans*

- Paragraph .08 is revised to further clarify the requirement for RABs to require firms to complete AICPA courses when nonconforming engagements are related to focus areas in the AICPA Enhancing Audit Quality Initiative.
- Paragraph .A16 (exhibit C) is revised to further clarify the description of allowable implementation plans for repeat findings that are not related to nonconforming engagements.
- Paragraph .A18 (appendix A) is revised to further clarify that the report of an outside party is to include the period ends of engagements reviewed, if applicable.

#### PR-C Section 430, *Reviewer Monitoring and Performance*

- Paragraph .A3 is revised to further clarify application and other explanatory material describing circumstances that result in a reviewer performance deficiency.

#### **Effective Date**

These enhancements and technical corrections are effective and reflected in the Peer Review Program Manual (PRPM) as of May 31, 2023 (effective for reviews commencing on or after June 1, 2023).

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# Proposed Peer Review Standards Update No. 1, *Omnibus Enhancements and Technical Corrections*

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strike through~~.)

## PR-C Section 100, *Concepts Common to All Peer Reviews*

[Paragraphs .01–.08 are unchanged.]

**.09** Firms that perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or *audits or examination* engagements under PCAOB standards as their highest level of service must have system reviews. Firms ***are eligible to have engagement reviews if the highest level of service does not require a system review and is performed*** ~~that perform services under the SSARSs or services under the SSAEs~~ ***or is an other attestation engagement under PCAOB standards*** ~~not included in system reviews as their highest level of service are eligible to have engagement reviews.~~ (Ref: par. .A11)

[Paragraph .10 is unchanged.]

**.11** For the purposes of all sections of these standards, the following terms have the meanings attributed as follows:

[The content of other definitions in this paragraph is unchanged.]

**Consent agenda.** A list of reviews, corrective actions, implementation plans, and other items that allows RAB members to vote on all items at one time without discussion; ~~however,~~ ***any RAB member may extract any item from the consent agenda for discussion and a separate vote if necessary; failing to respond to a call for vote should not be considered an affirmative response.*** The following minimum criteria must be met for a review to be accepted using a consent agenda: (Ref: par. .A17)

- A report rating of *pass*
- No matters for further consideration (MFCs)
- Without reviewer performance feedback



Items related to corrective actions and implementation plans should be accepted using a consent agenda only if

- there are clearly identifiable actions or procedures that could be accepted by the technical reviewer or CPA on staff (see paragraph ~~.0508~~ of PR-C section 420, *Corrective Actions and Implementation Plans*),
- requests to waive corrective actions or implementation plans are specific and easy to understand, or (Ref: par. .A18)
- there is no apparent reason that requests to extend due dates should not or would not be approved by the RAB. (Ref: par. .A19)

Other items may be approved using a consent agenda if there are clearly identifiable actions that do not require discussion, assessment, or a vote by the full peer review committee.

[Paragraphs .12–.43 are unchanged.]

**.44** If any of the disagreeing parties believe a review of the panel’s decision is warranted, they should request an appeal by writing to the board and explaining the reasons a review of the panel’s decision is warranted. A panel formed by the board will review and consider the request and take further action pursuant to fair procedures that it has established. (*Ref: par. .06 of section 400*)

[Paragraphs .45–.53 and .A1–.A10 are unchanged.]

**.A11** The type of peer review is determined based on the engagements performed as the firm’s highest level of service, as shown in the following chart:

<b>Engagements as the Firm’s Highest Level of Service</b>	<b>System Review</b>	<b>Engagement Review</b>
<b><i>Statements on Auditing Standards (SASs)</i></b>		
Engagements	X	
<b><i>Government Auditing Standards (GAS)</i></b>		
Financial audits	X	
Attestation engagements (examination, review, or agreed-upon procedures under GAS)	X	
Performance audits	X	
<b><i>Statements on Standards for Attestation Engagements (SSAEs)</i></b>		

<b>Engagements as the Firm’s Highest Level of Service</b>	<b>System Review</b>	<b>Engagement Review</b>
Examination engagements	X	
Review engagements		X
Agreed-upon procedures engagements		X
<b><i>PCAOB Standards</i></b>		
Audits	X	
<b><i>Examinations</i></b>	X	
<b><i>Other attestation engagements (reviews, attest, or agreed-upon procedures engagements under PCAOB standards)</i></b>		X
<b><i>Statements on Standards for Accounting and Review Services (SSARs)</i></b>		
Reviews of financial statements		X
Compilation engagements		X
Preparation of financial statements engagements		X

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

[Paragraphs .A12–.A56 are unchanged.]

***PR-C Section 200, General Principles and Responsibilities for Reviewers***

[Paragraphs .01–.04 are unchanged.]

**Reviewer Qualifications**

**.05** To qualify as a reviewer, CPAs should consider whether their day-to-day involvement in their firm's accounting and auditing practice is sufficiently comprehensive to enable them to perform a peer review with professional expertise. At a minimum, a reviewer should meet the following qualifications: (Ref: par. .A1)

- a.* Be a member of the AICPA in good standing, licensed to practice as a CPA, and employed by or an owner of a firm enrolled in the program. (Ref: par. .A2)
- b.* Be in public practice as a partner, manager, or person with equivalent responsibilities in the accounting or auditing practice or carrying out a quality control function in the CPA's firm. (Ref: par. .A3)
- c.* Have current practice experience by performing or supervising accounting or auditing engagements in the CPA's firm or carrying out a quality control function in the firm, with reports dated within the last 18 months. (Ref: par. .A4)
- d.* Have spent the last five years in the practice of public accounting in the accounting or auditing function.
- e.* Be employed by or be the owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review. (The report should have been accepted timely.) (Ref: par. .A5–.A6)
- f.* Possess ***appropriate experience and*** current knowledge of professional standards ~~and experience~~ related to the kind of practice and the industries of the engagements to be reviewed. (Ref: par. .A7)
- g.* Obtain at least 48 hours of AICPA-required continuing professional education (CPE) every 3 years in subjects relating to accounting, auditing, and quality control with a minimum of 8 hours in any 1 year.
- h.* Be free of restrictions from regulatory or governmental bodies on the CPA's ability to practice public accounting. (Ref: par. .A8)
- i.* Provide qualifications and experience via a reviewer resume.

[Paragraphs .06–.38 and .A1–.A45 are unchanged.]

## ***PR-C Section 210, General Principles and Responsibilities for Reviewers — System Reviews***

[Paragraphs .01–.04 are unchanged.]

### **Reviewer Qualifications for Team Captains**

**.05** In addition to meeting the requirements in section 200, a team captain must be a partner and complete initial and ongoing peer review training that meets the requirements established by the board. (Ref: par. .A1–.A2)

### **Reviewer Qualifications for Must-Select and Must-Cover Engagements**

**.06** In addition to the qualifications discussed in section 200, a reviewer of must-select engagements should meet the following criteria: (*Ref: par. .A2*)

- a. Have completed additional training focused on must-select engagements that meets the requirements of the board. (Ref: par. .A3~~2~~)
- b. Be ~~presently~~ **currently** involved in one of the following areas in the must-select engagements in the reviewer’s firm:
  - i. Supervising or performing engagements
  - ii. Performing engagement quality control reviews on engagements
  - iii. Performing the inspection of must-select engagements as part of the firm’s monitoring process
- c. Be employed by or be an owner of a firm that is a member of the respective audit quality center, if applicable.

[Paragraphs .07–.16 are unchanged.]

**.17** To assess control risk, the reviewer should consider the results of ~~the team captain’s assessing~~ ~~ment of the firm’s design of and compliance with~~ **its policies and procedures according to** quality control standards established by the AICPA. (Ref: par. .A11~~40~~)

[Paragraphs .18–.35 are unchanged.]

**.36** The reviewer should evaluate each engagement selected for review. The evaluation should include the following: (*Ref: par. .A32*)

- a. Consideration of the financial statements or information and the related accountants’ reports
- b. Review of accounting and audit documentation required by the applicable professional standards
- c. Consideration of information related to the engagement obtained through the peer review, including but not limited to engagement profile information, representations made by the firm, and other inquiries

[Paragraphs .37–.70 are unchanged.]

**.71** For all reviews administered by the National Peer Review Committee, the team captain should submit the following documents ~~in addition to those required by paragraph .70~~, as applicable: (Ref: par. ~~.A6866~~)

- a. All documents required *by paragraph .70* to be submitted for system reviews
- b. Engagement questionnaires or checklists
- c. Quality control documents and related practice aids
- d. Staff and focus group interview forms
- e. Planning documents
- f. Any other documents considered relevant by the team captain

[Paragraph .A1 is unchanged.]

*.A2 In rare circumstances, an exception to the reviewer qualification requirements described in paragraphs .05–.08 may be approved by the AICPA prior to commencement of the peer review. The request must be made in writing and should thoroughly explain why the exception should be approved.*

[Paragraphs .A2–.A30 are renumbered to .A3–.A31. The content is unchanged.]

*.A32 When reviewing engagements subject to the Statements on Standards for Accounting and Review Services, team captains may refer to examples of noncompliance with applicable professional standards in appendix A of section 220 to assist with concluding whether the engagement is performed and reported on in conformity with applicable professional standards in all material respects (nonconforming). While nonconforming engagements are elevated to a deficiency in an engagement review, nonconforming engagements do not necessarily result in a finding, deficiency, or significant deficiency in a system review.*

[Paragraphs .A31–.A68 are renumbered to .A33–.A70. The content is unchanged.]

## **Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements (Ref: par. .27)**

~~.A7169~~

[Paragraphs .01–.02 in appendix C are unchanged.]

### **Engagements Under Government Auditing Standards**

**.03** Government Auditing Standards (GAS), issued by the U.S. Government Accountability Office, requires auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards. *If a firm performs the financial statement audit of one or more entities subject to*

***GAS, at least one such audit engagement should be selected for review.*** Additionally, if the firm performs engagements of entities subject to the Single Audit Act, the reviewer must evaluate a compliance audit.

[Paragraphs .04–.08 in appendix C are unchanged.]

### **Examinations of Service Organizations**

**.09** Due to the reliance of user entities on system and organization control (SOC) reports, particularly SOC 1<sup>®</sup> and SOC 2<sup>®</sup> reports, there is a significant public interest in examinations of service organizations relevant to user entities. If a firm performs an examination of one or more service organizations and issues a SOC 1 or SOC 2 report, at least one examination should be reviewed. ~~If a firm performs both SOC 1 and SOC 2 engagements and a proper risk assessment determined that only one SOC engagement should be selected, a SOC 1 engagement should be reviewed due to the reliance on the report by other auditors.~~

[Paragraphs .10–.12 in appendix C are unchanged.]

## **Exhibit B — Illustrative Examples of the Reviewer’s Report on the Firm’s System of Quality Control**

~~.A7270~~ This exhibit contains various illustrations of a peer reviewer’s report on a firm’s system of quality control (system reviews).

[Illustrations 1-4 of exhibit B are unchanged.]

### **Illustration 5 — A Reviewer’s Report on the Firm’s System of Quality Control With a Peer Review Rating of Fail**

*[Firm letterhead for a firm-on-firm review; team captain’s firm letterhead for an association-formed review team]*

#### **Report on the Firm’s System of Quality Control**

*[Exit Conference Date]*

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*],<sup>fn 1</sup>

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<sup>fn 1</sup> The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: “To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee.”

We<sup>fn 2</sup> have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm)<sup>fn 3</sup> in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm's Responsibility**

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control ~~and the firm's compliance therewith~~ based on our review.

### **Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements).<sup>fn 4</sup>

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<sup>fn 2</sup> The report should use the plural *we*, *us*, and *our* even if the review team consists of only one person. The singular *I*, *me*, and *my* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

<sup>fn 3</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

<sup>fn 4</sup> If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of depository institutions with total assets of \$500 million or more at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### **Significant Deficiencies<sup>fn 5</sup> Identified in the Firm’s System of Quality Control**

We noted the following significant deficiencies<sup>fn 6</sup> during our review:

1. The firm’s quality control policies and procedures do not provide reasonable assurance that the firm will comply with applicable professional standards and will issue reports that are appropriate in the circumstances, as a result of the following significant deficiencies:
  - a. The firm lacks policies and procedures addressing new engagement acceptance to reasonably ensure it only undertakes engagements that it has the capabilities, resources, and professional competence to complete in accordance with applicable professional standards.
  - b. The firm lacks policies and procedures addressing continuing professional education (CPE) to require its personnel to obtain relevant training to prepare for engagements in new industries or service areas.
  - c. Firm leadership has not implemented policies and procedures to provide clear, consistent, and frequent actions and messages from all levels of the firm’s management that emphasize the firm’s commitment to quality.

In our opinion, the significant deficiencies described previously contributed to an employee benefit plan audit that did not conform to professional standards in all material respects. During our review, we discovered that the firm had undertaken an employee benefit plan audit without performing appropriate acceptance procedures, including the engagement partner obtaining relevant CPE or otherwise obtaining sufficient knowledge to conduct the audit.

2. The firm’s quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. The courses taken by

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selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows “Government Auditing Standards, compliance audits under the Single Audit Act,” and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

<sup>fn 5</sup> This language should be tailored to indicate a single significant deficiency, when applicable.

<sup>fn 6</sup> When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.



firm personnel did not provide them with sufficient information about current developments in accounting and auditing matters. In our opinion, this led to firm personnel being unable to appropriately address recent pronouncements and new disclosure requirements and failure to consider new auditing standards and other required communications. This contributed to audit engagements performed under *Government Auditing Standards*, and audits in other industries, that did not conform to professional standards in all material respects.

3. The firm's quality control policies and procedures regarding monitoring do not provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The firm's quality control policies and procedures do not
  - a. include an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements.
  - b. require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.
  - c. assign the performance of monitoring the firm's system of quality control to qualified individuals.

## Opinion

In our opinion, as a result of the significant deficiencies previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.<sup>fn 7</sup> in effect for the year ended June 30, 20XX, was not suitably designed or complied with to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *fail*.

[*Name of team captain's firm*]

[Illustration 6 of exhibit B is unchanged.]

## ***PR-C Section 220, General Principles and Responsibilities for Reviewers — Engagement Reviews***

[Paragraphs .01–.05 are unchanged.]

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<sup>fn 7</sup> The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

## *Reviewer Qualifications for Review Captains*

*.06 In addition to meeting the requirements in section 200, a review captain should complete initial and ongoing peer review training that meets the requirements established by the board. (Ref: par. .A2–.A3)*

[Paragraphs .06–.32 are renumbered to .07–.33. The content is unchanged.]

~~.3433~~ The written report in an engagement review should (Ref: par. .A2624)

- a. be dated as of the exit conference date.
- b. be issued on letterhead of the firm performing the review.
- c. state at the top of the report the title “Report on the Firm’s Conformity With Professional Standards on Engagements Reviewed.”
- d. include headings for each of the following sections:
  - i. Firm’s Responsibility
  - ii. Peer Reviewer’s Responsibility
  - iii. Deficiency(ies) Identified in the Firm’s Conformity With Professional Standards on Engagements Reviewed (if applicable)
  - iv. Scope Limitation (if applicable)
  - v. Conclusion
- e. state that the review captain reviewed selected accounting engagements of the firm and include the year-end covered by the peer review.
- f. state that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board of the American Institute of Certified Public Accountants.
- g. state that the nature, objectives, scope, limitations of, and procedures performed in an engagement review as described in the standards can be found on the AICPA website where the standards are summarized.
- h. include a URL reference to the AICPA website where the standards are located and state that the summary includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.
- i. state that the firm is responsible for designing **and complying with** a system of quality control ~~and complying with it~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects

and for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

[Items *j-p* of this paragraph are unchanged.]

[Paragraph .34 is renumbered to .35. The content is unchanged].

***.36 For all reviews administered by the National Peer Review Committee, the review captain should submit the following documents, as applicable: (Ref: par. .A30)***

- a. All documents required by paragraph .35 to be submitted for engagement reviews*
- b. Engagement questionnaires or checklists*
- c. Any other documents considered relevant by the review captain*

[Paragraph .A1 is unchanged.]

### ***Reviewer Qualifications for Review Captains***

***.A2 Peer review training courses designed to meet the requirement are located on the Peer Review page of the AICPA website.***

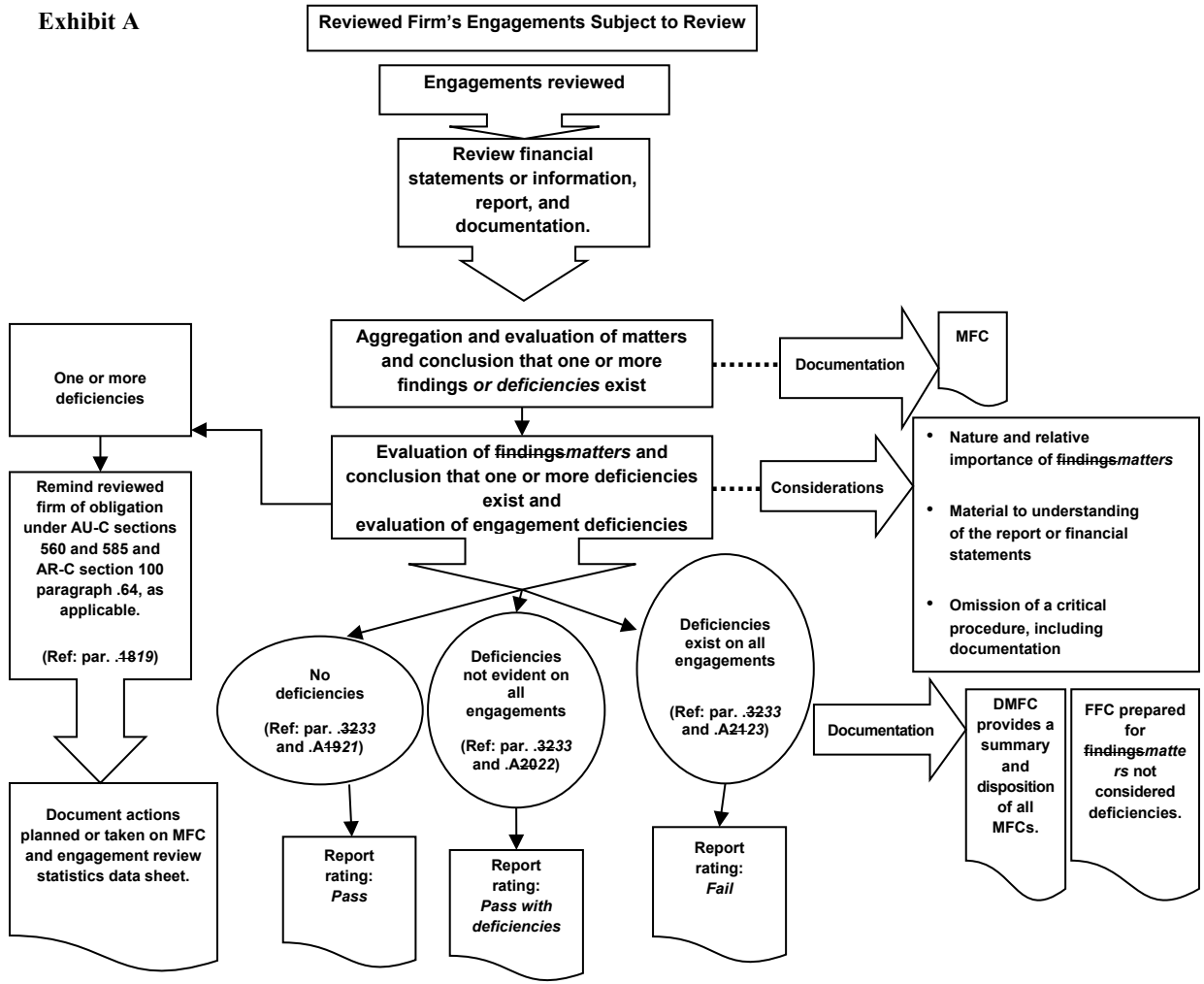
***.A3 In rare circumstances, an exception to reviewer qualifications described in paragraph .06 may be approved by the AICPA prior to commencement of the peer review. The request must be made in writing and should thoroughly explain why the exception should be approved.***

[Paragraphs .A2–.A6 are renumbered to .A4–.A8. The content is unchanged.]

### **Identifying, Evaluating, and Aggregating Matters, Findings, and Deficiencies (Ref: par. .20–.24)**

**.A79** Exhibit A shows a broad understanding of the peer review process, from the review of submitted engagements to the determination of *whether* a matter, *is a* finding, or deficiency. It also illustrates the aggregation of these items, their documentation, and their potential impact on the report rating.

Exhibit A



~~.A108~~ One or more matters may be elevated to a finding or deficiency. To determine if *whether* a matter should be ~~is~~ elevated *to a finding or deficiency*, the review captain ~~should~~ considers the matter’s nature and relative importance, if the matter is material to the understanding of the report or financial statements, or if the matter represents the omission of a critical procedure including documentation.

[Paragraphs .A9–.A28 are renumbered to .A11–.A30. The content is unchanged.]

## Appendix A — Examples of Noncompliance With Applicable Professional Standards

~~.A3129~~ The following is a list of examples of noncompliance with applicable professional standards. This is not an all-inclusive list, and the reviewer should decide if the noncompliance is a matter, finding, or deficiency as described in paragraphs ~~.2120–.2524~~ and by using the following guidance. (Ref: par. ~~.2120–.2524~~ and .A97)

## List of Matters ~~and Findings~~ That Generally Would ~~Not~~ Result in a ~~Deficiency-Finding~~

[The content beneath the preceding heading is unchanged.]

## List of Matters ~~and Findings~~ That Generally Would Result in a Deficiency

[All other content beneath the preceding heading is unchanged.]

### SSARs Procedures (Including Documentation)

- Failure to establish an understanding with management regarding the services to be performed through a written communication (for example, an engagement letter)
- Failure to document significant findings or issues
- Failure to document communications to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention
- *For review engagements, failure to document materiality or to apply the established materiality when designing or evaluating the results of review procedures*
- For review engagements, failure to perform or document analytical and inquiry procedures, including the matters covered, and the development of and basis for the accountant's expectations
- For review engagements, failure to document significant unusual matters and their disposition
- For review engagements, failure to obtain a client management representation letter
- Failure to obtain all required signatures on the engagement letter (or other suitable written agreement)

[Paragraph .A30 is renumbered to .A32. The content is unchanged.]

## **PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms***

[Paragraphs .01–.19 are unchanged.]

### **Resigning From the Program**

~~.20 A firm may resign from the program when it is no longer performing engagements that require the firm to undergo a peer review.~~ To resign from the program, a firm should submit a written request to the AE before the firm's peer review has commenced. ***Before resigning, a*** firm should consult with its state boards of accountancy to determine if ***it is in compliance with its state peer***

~~*review requirements* there are rules that require enrollment in the program even if the firm does not perform services that include issuing reports or when it is no longer performing engagements that require a firm to undergo a peer review.~~

[Paragraphs .21–.25 and .A1–.A14 are unchanged.]

**.A15** The firm’s AE and AICPA staff may disclose to third parties the following information:

- a. The firm’s name and address
- b. Whether the firm is enrolled in the program
- c. The date of acceptance and period covered by the firm’s most recently accepted peer review
- d. The most recent date that the firm’s enrollment in the program has been dropped or terminated, if applicable

This information is available in the AICPA public file for all firms enrolled in the program *and for a period of 42 months after a firm is no longer enrolled.*

[Paragraphs .A16–.A22 are unchanged.]

~~**.A23** *A firm may resign from the program when it no longer performs engagements that require the firm to be enrolled in the program.* The submission by the firm of a request to resign from the program once its peer review has commenced but has not been completed is considered not cooperating, *and the firm’s enrollment is subject* with the AE and may lead to the termination *from the program as described in paragraph .14* of the firm’s enrollment in the program by a hearing panel of the board.~~

[Paragraph .A24 is unchanged.]

## ***PR-C Section 310, General Principles and Responsibilities for Reviewed Firms — System Reviews***

[Paragraphs .01–.15 are unchanged.]

**.16** The firm should provide to the team captain written representations on firm letterhead for the peer review year, dated as of the date of the peer review report, that state the following: (Ref: par. .A22–.A23)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting and auditing practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the team captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which the firm practices, for the year under review. ~~If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe its remediation of the noncompliance.~~

[Items *d.–l.* in paragraph .16 are unchanged]

[Paragraphs .17–.18 and .A1–.A25 are unchanged.]

## **Exhibit A — Illustrative Representation Letter**

**.A26** The following illustrative letter includes written representations that are required by paragraphs .16 and .17 of this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.

[*Entity Letterhead*]

[*Date*]

To [*Name of Team Captain*]:

We are providing this letter in connection with the peer review of the system of quality control for the accounting and auditing practice of [*name of firm*] [*applicable to engagements not subject to PCAOB permanent inspection*] <sup>fn 1</sup> (if applicable) as of the date of this letter and for the year ended June 30, 20XX.

Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting and auditing practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [*no knowledge of*][*disclosed to you all known*] situations in which [*name of firm*] 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.

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<sup>fn 1</sup> *The representation letter of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."*

We have provided to the team captain a list of all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) 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, and examinations of service organizations (SOC 1<sup>®</sup> and SOC 2<sup>®</sup> 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 the following must-select engagements and issued their respective reports. 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. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Examinations of service organizations (SOC 1 and SOC 2 engagements)]

[*We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the [Matter for Further Consideration, Finding for Further Consideration, or Letter of Response (as applicable)]].*

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,

[*Name of Reviewed Firm Representative(s)*]<sup>fn 24</sup>

[Paragraph .A27 is unchanged.]

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<sup>fn 24</sup> Firm representatives are members of management, as described in paragraph .10 in section 300, *General Principles and Responsibilities for Reviewed Firms*.

## **PR-C Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews***

[Paragraphs .01–.15 are unchanged.]

**.16** The firm should provide to the review captain written representations on firm letterhead for the peer review year, dated as of the date of the peer review report, that state the following: (Ref: par. .A16–.A18)

- a. Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the review captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements *through the issuance dates of the reviewed engagements* in each state in which the firm practices for the year under review. ~~If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe its remediation of the noncompliance.~~

[Items *d.–l.* in paragraph .16 are unchanged]

[Paragraphs .17–.19 and .A1–.A18 are unchanged.]

### **Exhibit A — Illustrative Representation Letter**

**.A19** The following illustrative letter includes written representations that are required by paragraphs .16 and .17 of this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.

[*Entity Letterhead*]

[*Date of the Report*]

To [*Name of Review Captain*]:

We are providing this letter in connection with the peer review of [*name of firm*] ***[applicable to engagements not subject to PCAOB permanent inspection (if applicable)]***<sup>fn 2</sup> as of the date of this letter and for the year ended June 30, 20XX.

Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [*no knowledge of*][*disclosed to you all known*] situations in which [*name of firm*] 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 through the issuance dates of the reviewed engagements in each state in which it practices for the year under review.

We have provided to the review captain a list of all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or ***audit or examination*** engagements under Public Company Accounting Oversight Board (PCAOB) standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list 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 confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the Letter of Response (if applicable).]*

We have discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the review captain, if applicable. We have also provided the review 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 that, to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to

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<sup>fn 2</sup> ***The representation letter of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."***

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 practice in all material respects.

Sincerely,

[*Name of Reviewed Firm Representative(s)*] <sup>fn 34</sup>

[Paragraph .A20 is unchanged.]

## **PR-C Section 400, *General Principles and Administration Responsibilities***

[Paragraphs .01–.20 are unchanged.]

### **Report Acceptance Body**

#### *Qualifications*

**.21** A RAB member should

- a. be a member of the AICPA in good standing, licensed to practice as a CPA.
- b. be ~~presently~~ **currently** involved in public practice as a partner, manager, or person with equivalent responsibilities in the accounting or auditing practice or carrying out a quality control function in the member's firm. (Ref: par. .A23)
- c. have spent the last five years in the practice of public accounting in the accounting or auditing function.
- d. be employed by or be an owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review. The report should have been accepted timely. (Ref: par. .A24–**.A25**)
- e. complete RAB member training that meets the requirements established by the board.

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<sup>fn 34</sup> Firm representatives are members of management as described in paragraph .10 of section 300, *General Principles and Responsibilities for Reviewed Firms*.

- f. agree to confidentiality and conflict-of-interest requirements of the program.

[Paragraphs .22–.24 are unchanged.]

**.25** If a RAB meeting includes a third party to meet the requirement for must-select experience discussed in paragraph .24, that individual should meet the following qualifications:

- a. Be a member of the AICPA in good standing, licensed to practice as a CPA, and employed by or an owner of a firm enrolled in the program.
- b. Be ~~presently~~**currently** involved in public practice in the must-select engagements as a partner, manager, or person with equivalent supervisory responsibilities or carrying out a quality control function in the individual’s firm.
- c. Be employed by or an owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent system review. The report should have been accepted timely. (**Ref: par. .A29**)
- d. Agree to confidentiality and conflict-of-interest requirements of the program.

[Paragraphs .26–.30 are unchanged.]

**.31** When considering replacing or waiving corrective actions or implementation plans, the RAB should do the following:

- a. Review the facts and circumstances surrounding the deficiencies or findings.
- b. Consider the reasons for the original action.
- c. Consider replacing an action prior to waiving an action, if applicable. (See paragraph ~~.1512~~ of section 420.)

[Paragraphs .32–.44 are unchanged.]

## **Technical Reviewer**

### *Qualifications*

**.45** A technical reviewer should

- a. be a member of the AICPA in good standing, licensed to practice as a CPA.
- b. complete initial and ongoing peer review captain training that meets the requirements established by the board within 12 months preceding the commencement of the technical review. (**Ref: par. .A4038**)
- c. have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. (**Ref: par. .A4139**)

- d. complete initial technical reviewer training that meets the requirements established by the board within 12 months before serving as a technical reviewer and complete or attend one of the following every calendar year thereafter:
  - i. ~~A~~ a technical reviewer update training course developed by the AICPA
  - ii. ~~T~~ the annual AICPA peer review conference
- e. obtain at least 48 hours of AICPA-required CPE every 3 years in subjects relating to accounting, auditing, and quality control, with a minimum of 8 hours in any 1 year.
- f. obtain at least 8 hours of CPE every 2 years in subjects related to single audits, if performing the technical review of a peer review that includes single audit engagements. ~~The required CPE hours should include completion of technical reviewer training for single audits, which should be completed prior to performing the technical reviewer's first technical review of documents for a single audit engagement. (Ref: par. .A40)~~
- g. complete technical reviewer training specifically for single audit engagements prior to performing the technical reviewer's first technical review of peer review documents for a single audit engagement. (Ref: par. .A42)**
- h. annually participate in a peer review that is equivalent to the highest level of technical review performed. Participation includes the following: **(Ref: par. .A43)**
  - i. Reviewing and discussing the planning and scope of the peer review with the captain
  - ii. Reviewing the engagement checklists completed by the review team
  - iii. Attending meetings or participating in conference calls between the reviewer and reviewed firm to discuss issues encountered during the peer review
  - iv. Attending the closing meeting and the exit conference

[Paragraphs .46–.54 and .A1–.A24 are unchanged.]

**.A25 In rare circumstances, an exception may be approved by the AICPA when a request is submitted in writing that thoroughly explains why the exception should be approved for an individual who does not meet the required qualifications described in paragraph .21.**

[Paragraph .A25 is renumbered to paragraph .A26. The content is unchanged.]

*Report Acceptance Body Composition (Ref: par. .23–.25)*

**.A2726** Current experience is described in paragraph ~~.A2122~~ of section 200.

**.A2827** The appropriate must-select experience may come from a member of the RAB, another AE's RAB member, or an individual from a list of consultants maintained by the AICPA. The AE will determine if the RAB will not have the appropriate must-select experience and **will** assign an

individual with such experience prior to assigning the review to a RAB. ~~The~~*If the assigned individual with the appropriate must-select experience is a consultant rather than an assigned RAB member, that individual may attend the RAB meeting via teleconference; however, that individual is not eligible to vote on the acceptance of reviews.*

1. ~~participates as a consultant,~~
2. ~~is not eligible to vote on acceptance of a review, and~~
3. ~~may attend the RAB meeting via teleconference.~~

*.A29 In rare circumstances, an exception may be approved by the AICPA when a request is submitted in writing that thoroughly explains why the exception should be approved for an individual who does not meet the required qualifications described in paragraph .25.*

[Paragraphs .A28–.A40 are renumbered to paragraphs .A30–.A42. The content is unchanged.]

*.A43 The timing of a technical reviewer’s participation may vary depending on the circumstances of the review. For example, the closing meeting and exit conference may be delayed and occur in the subsequent year. In this situation, the AE may consider the circumstances of the delay and exercise judgment when concluding whether the technical reviewer has substantially met the participation requirement described in paragraph .45.*

[Paragraphs .A41–.A43 are renumbered to paragraphs .A44–.A46. The content is unchanged.]

## **Exhibit A — Example Familiarity Threat Policies and Procedures**

**.A4744** This exhibit includes examples of familiarity threats and potential safeguards used to mitigate the threats. 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; in other instances, however, depending on the significance of a threat, more than one safeguard may be necessary to properly mitigate it.

Familiarity Threat	Safeguards to Mitigate the Threat
<p><b>.01</b> The peer reviews of the technical reviewers’ and committee or report acceptance body (RAB) members’ firms are presented for acceptance.</p>	<ul style="list-style-type: none"> <li>• <i>Establish multiple RABs that change composition regularly.</i></li> <li>• <i>Redact all firm and reviewer identifying information from the RAB materials.</i></li> <li>• <i>Designate the CPA on staff, a committee member, or other qualified individual to monitor the RAB process and address preferential treatment or inconsistencies in the process.</i></li> <li>• <i>Arrange for RAB members from other AEs to participate in RABs periodically.</i></li> <li>• <i>Include the peer reviews of the technical reviewers’ and committee or RAB members’ firms in the annual oversight selections.</i></li> </ul>

Familiarity Threat	Safeguards to Mitigate the Threat
	<ul style="list-style-type: none"> <li>• <i>Engage technical reviewers from other AEs to perform the technical review of the peer reviews of the technical reviewers' and committee or RAB members' firms.</i></li> <li>• <del>The technical reviewers' and committee or RAB members' peer reviews will be accepted by a different administering entity (AE). We have partnered with AE "A" and have attached the agreement as addendum B.</del></li> <li>• <del>The AE is split in more than one district, for example, east and west. The committee or RAB accepts reviews from a district other than its own.</del></li> <li>• <del>The CPA on staff monitors the RAB process and reports preferential treatment or inconsistencies in the process.</del></li> <li>• <del>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.</del></li> </ul>
<p><b>.02</b> <i>The peer reviews performed by the technical reviewers and committee or RAB members are presented for acceptance.</i> <del>Overreliance is placed on committee or RAB members, which leads to other members not reading the RAB package in its entirety.</del></p>	<ul style="list-style-type: none"> <li>• <i>Establish multiple RABs that change composition regularly.</i></li> <li>• <i>Redact all firm and reviewer identifying information from the RAB materials.</i></li> <li>• <i>Designate the CPA on staff, a committee member, or other qualified individual to monitor the RAB process and address preferential treatment or inconsistencies in the process.</i></li> <li>• <i>Arrange for RAB members from other AEs to participate in RABs periodically.</i></li> <li>• <i>Include the peer reviews performed by the technical reviewers and committee or RAB members in the annual oversight selections.</i></li> <li>• <del>Arranging for RAB members from other AEs to participate in RABs</del></li> <li>• <del>Having multiple committees or RABs that change composition regularly</del></li> <li>• <del>Having RAB members acknowledge that they have read reviews before starting the meeting</del></li> <li>• <del>Having the CPA on staff evaluate committee or RAB member performance</del></li> </ul>
<p><b>.03</b> The committee or RAB members have a long-standing relationship with the technical reviewers, which leads to overreliance on the technical reviewers'</p>	<ul style="list-style-type: none"> <li>• <del>Engage <i>ing</i> technical reviewers from other AEs</del> <i>qualified individuals from another state to perform all technical reviews periodically.</i></li> <li>• <del>Arrange <i>ing</i> for RAB members from other AEs to participate in RABs</del> <i>periodically.</i></li> </ul>



Familiarity Threat	Safeguards to Mitigate the Threat
<p>procedures and conclusions. For instance, it may not be apparent if an issue or a nonconforming engagement has been addressed, yet the committee or RAB <i>members</i> decide not to investigate because members believe the technical reviewer would not have missed the issue.</p>	<ul style="list-style-type: none"> <li>• Engage <del>ing</del> a second technical reviewer to perform a selection of secondary technical reviews of high-risk reviewers, firms, and random samples.</li> <li>• <b><i>Designate the CPA on staff, a committee member, or other qualified individual to monitor the RAB process and address preferential treatment or inconsistencies in the process.</i></b></li> </ul>
<p><b>.04</b> The committee or RAB members have long-standing relationships with some reviewers, particularly those who perform a high volume of reviews.</p>	<ul style="list-style-type: none"> <li>• <b><i>Arrange for RAB members from other AEs to participate in RABs periodically.</i></b></li> <li>• <b><i>Redact all firm and reviewer identifying information from the RAB materials.</i></b></li> <li>• <b><i>At the beginning of each meeting, remind committee or RAB members to identify relationships with reviewers and reviewed firms.</i></b></li> <li>• <b><i>Designate the CPA on staff, a committee member, or other qualified individual to monitor the RAB process and address preferential treatment or inconsistencies in the process.</i></b></li> <li>• <del>Arranging for another AE to accept an AE's high-volume reviewers' reviews</del></li> <li>• <del>Annually requesting committee or RAB members to identify conflicts of interest with reviewers and reviewed firms</del></li> </ul>
<p><b>.05</b> Technical reviewers have long-standing relationships with some reviewers, particularly those who perform a high volume of reviews.</p>	<ul style="list-style-type: none"> <li>• <b><i>Engage technical reviewers from other AEs to perform technical reviews periodically.</i></b></li> <li>• <b><i>Assign technical reviewers on a varying basis, ensuring rotation on reviews performed by high-volume reviewers.</i></b></li> <li>• <b><i>Engage a second technical reviewer to perform a selection of technical reviews of high-volume reviewers.</i></b></li> <li>• <b><i>Include the peer reviews of high-volume reviewers in the annual oversight selections.</i></b></li> <li>• <b><i>Designate the CPA on staff to periodically perform a detailed review of peer reviews that are ready for RAB presentation.</i></b></li> <li>• <del>Engaging qualified individuals from another state to perform all technical reviews</del></li> <li>• <del>Arranging for another AE to accept reviews performed by a high-volume reviewer</del></li> </ul>

Familiarity Threat	Safeguards to Mitigate the Threat
	<ul style="list-style-type: none"> <li>• <del>Annually requesting technical reviewers to identify conflicts of interest with reviewers and reviewed firms</del></li> </ul>
<p><b>.06 Committees or RABs</b> AEs are hesitant to provide feedback or consider deficiency letters for a variety of reasons including, but not limited to, the following:</p> <ol style="list-style-type: none"> <li>a. RAB members know the reviewer.</li> <li>b. The reviewer performs a high volume of reviews <b>administered by the AE, in the state</b> and the RAB <b>does not want to offend the reviewer</b> is afraid to offend him or her.</li> <li>c. The reviewer is a RAB member (current or former) or is a technical reviewer.</li> <li>d. The reviewer teaches for the <del>state CPA</del> society or has some other society relationship that leads to a belief that the individual knows what the individual is doing.</li> </ol>	<ul style="list-style-type: none"> <li>• Engage <del>ing</del> qualified individuals <b>technical reviewers</b> from <b>other AEs another state</b> to perform all technical reviews <b>periodically</b>.</li> <li>• Arrange <del>ing</del> for RAB members from other AEs to participate in RABs <b>periodically</b>.</li> <li>• <b>Redact all firm and reviewer identifying information from the RAB materials.</b></li> <li>• <b>Designate the CPA on staff, a committee member, or other qualified individual to monitor the RAB process and address preferential treatment or inconsistencies in the process.</b></li> <li>• <del>Annually requesting committee or RAB members to identify conflicts of interest with reviewers and reviewed firms</del></li> </ul>
<p><b>.07</b> A committee member is given informal feedback on reviews the committee member performed but a different reviewer is issued written feedback for the same issue.</p>	<ul style="list-style-type: none"> <li>• Arrange <del>ing</del> for RAB members from other AEs to participate in RABs <b>periodically</b>.</li> <li>• <b>Redact all firm and reviewer identifying information from the RAB materials.</b></li> <li>• <del>Having</del> <b>Designate the CPA on staff, a committee member, or other qualified individual to monitor the RAB process and report address</b> preferential treatment or inconsistencies in the process.</li> <li>• <del>Having the AE designate a committee member (or other qualified individual) as an observer of RAB meetings to monitor the RAB</del></li> </ul>

Familiarity Threat	Safeguards to Mitigate the Threat
	<p>process and report preferential treatment or inconsistencies in the process</p>
<p><del>.08</del> Following an enhanced oversight, the RAB has allowed the peer reviewer or reviewed firm to provide documentation not provided to the subject matter expert during the enhanced oversight (such documentation should have been provided at that time). This gives the appearance that reviewers or reviewed firms familiar to the RAB are being allowed to create working papers.</p>	<ul style="list-style-type: none"> <li><del>• Arranging for specialists from other states to participate in RABs</del></li> <li><del>• Arranging for RAB members from other AEs to participate in RABs</del></li> <li>• Having the CPA on staff monitor the RAB process and report preferential treatment or inconsistencies in the process</li> </ul>
<p><del>.089</del> RAB members mention a firm's reputation regarding a specific industry concentration when presented with issues (generally documentation issues), implying that because issues were not identified previously, it is unlikely issues exist now despite evidence to the contrary).</p>	<ul style="list-style-type: none"> <li>• Arrange <del>ing</del> for specialists <del>from other states</del> to participate in RABs.</li> <li>• <b><i>Redact all firm and reviewer identifying information from the RAB materials.</i></b></li> <li>• <b><i>Designate the CPA on staff, a committee member, or other qualified individual to monitor the RAB process and address preferential treatment or inconsistencies in the process.</i></b></li> </ul>
<p><i>.09 The peer review of the AE's CPA on staff's firm is presented for acceptance.</i></p>	<ul style="list-style-type: none"> <li>• <b><i>Arrange for another AE to administer the peer review of the CPA on staff's firm (a change in venue).</i></b></li> <li>• <b><i>Engage a technical reviewer from another AE to perform the technical review of the peer review of the CPA on staff's firm.</i></b></li> <li>• <b><i>Arrange for one or more RAB members from another AE to participate in the RAB when the peer review of the CPA on staff's firm is presented.</i></b></li> </ul>
<p><i>.10 The peer reviews performed by an individual within the CPA on staff's</i></p>	<ul style="list-style-type: none"> <li>• <b><i>Engage a technical reviewer from another AE to perform the technical review of the peer review performed by an individual within the CPA on staff's firm or reported on by the CPA on staff's firm.</i></b></li> </ul>

Familiarity Threat	Safeguards to Mitigate the Threat
<i>firm or reported on by the CPA on staff's firm are presented for acceptance.</i>	<ul style="list-style-type: none"> <li>• <i>Arrange for one or more RAB members from another AE to participate in the RAB when the peer reviews reported on by the CPA on staff's firm are presented.</i></li> </ul>

[Paragraphs .A45–.A47 are renumbered to paragraphs .A48–.A50. The content is unchanged.]

## PR-C Section 410, *The Report Acceptance Process*

[Paragraphs .01–.13 are unchanged.]

### Delayed Acceptance

**.14** The RAB should delay acceptance of a peer review *when it has sufficient information to conclude that the peer review was performed and reported on in accordance with the standards but there are* ~~for minor revisions~~ *that need to be addressed prior to publicizing the results of the peer review.* ~~in the following situations (this list is not all-inclusive):~~ (Ref: par. .A8–.A1140)

- ~~a. When peer review reports and letters of response
 
  - ~~i. do not indicate that a deficiency or significant deficiency is repeated from the prior peer review;~~
  - ~~ii. have misleading grammar or excessively ambiguous language;~~
  - ~~iii. include misquoted professional literature;~~
  - ~~iv. reference professional standards unrelated to the subject matter; or~~
  - ~~v. for system reviews, do not identify the industry and level of service for any deficiencies or significant deficiencies that are industry specific or related to a nonconforming must-select engagement~~~~
- ~~b. When FFCs
 
  - ~~i. have incorrect or missing references to the applicable professional standards;~~
  - ~~ii. do not identify the MFC that led to the finding;~~
  - ~~iii. incorrectly identify the type of matter;~~
  - ~~iv. do not correctly identify whether the finding is a repeat;~~
  - ~~v. do not describe the scenario that led to the finding;~~~~

- ~~vi. do not provide reference to the specific industry or engagement related to a nonconforming engagement, if applicable;~~
- ~~vii. do not have a clear description of the finding from the reviewer;~~
- ~~viii. are not signed by an authorized representative of the firm; or~~
- ~~ix. for system reviews, have incorrect or missing references to the applicable requirements of the Statements on Quality Control Standards~~

~~e. When MFCs~~

- ~~i. are not completed properly or fully or~~
- ~~ii. contain firm or client references~~

Deferred Acceptance

**.15** The RAB should defer acceptance of a review if *it does not have sufficient information to conclude whether the review was performed or reported on in accordance with the standards due to* ~~there are unresolved questions~~ *or revisions* significant enough that no decision can be made until further information is received. ~~and for significant revisions in the following situations (this list is not all inclusive):~~ (Ref: par. .A1211-.A1513)

~~a. When peer review reports or letters of response~~

- ~~i. have significant departures from the standard report formats;~~
- ~~ii. have an incorrect report rating or omitted deficiencies or significant deficiencies;~~
- ~~iii. have deficiencies or significant deficiencies that appear to set standards higher than those mandated by professional standards;~~
- ~~iv. for system reviews, have deficiencies or significant deficiencies that are not written systemically, or the systemic causes are not clear;~~
- ~~v. do not have responses that appropriately address deficiencies or significant deficiencies identified in the peer review report; or~~
- ~~vi. have responses that do not appropriately address nonconforming engagements, including responses that are unacceptably noncommittal, vague, or otherwise unclear or not responsive~~

~~b. When FFCs~~

- ~~i. do not have a clear description of the finding from the reviewer and, on system reviews, do not include the systemic cause of the finding or~~

- ~~ii. include a response from the reviewed firm that does not appear comprehensive, genuine, and feasible~~
- ~~e. When any other peer review documents need revision for the RAB to conclude whether the review was performed and reported on in accordance with the standards~~

## **Application and Other Explanatory Material**

### **Technical Reviewer's Evaluation of System Reviews (Ref: par. .05-.07)**

**.A1** The RAB may delegate the review of the engagement profile and the supplemental peer review checklist for single audits to the technical reviewer if the technical reviewer has completed CPE as required by paragraph .45e(f)-(g) of section 400. The technical reviewer may request that a member of the RAB perform the technical review of such documents when the technical reviewer has not obtained the required CPE.

[Paragraphs .A2-.A7 are unchanged.]

**.A8** *Acceptance of a peer review may be delayed in the following situations (this list is not all-inclusive):*

**a.** *When peer review reports and letters of response*

- i.** *do not indicate that a deficiency or significant deficiency is repeated from the prior peer review,*
- ii.** *have misleading grammar or excessively ambiguous language,*
- iii.** *include misquoted professional literature,*
- iv.** *reference professional standards unrelated to the subject matter, or*
- v.** *for system reviews, do not identify the industry and level of service for any deficiencies or significant deficiencies that are industry specific or related to a nonconforming must-select engagement*

**b.** *When FFCs*

- i.** *have incorrect or missing references to the applicable professional standards;*
- ii.** *do not identify the MFC that led to the finding;*
- iii.** *incorrectly identify the type of matter;*
- iv.** *do not correctly identify whether the finding is a repeat;*
- v.** *do not describe the scenario that led to the finding;*

- vi. *do not provide reference to the specific industry or engagement related to a nonconforming engagement, if applicable;*
- vii. *do not have a clear description of the finding from the reviewer;*
- viii. *are not signed by an authorized representative of the firm; or*
- ix. *for system reviews, have incorrect or missing references to the applicable requirements of the Statements on Quality Control Standards*

c. *When MFCs*

- i. *are not completed properly or fully or*
- ii. *contain firm or client references*

[Paragraphs .A8–.A10 are renumbered to .A9–.A11. The content is unchanged.]

*.A12 Acceptance of a peer review may be deferred in the following situations (this list is not all-inclusive):*

a. *When peer review reports or letters of response*

- i. *have significant departures from the standard report formats;*
- ii. *have an incorrect report rating or omitted deficiencies or significant deficiencies;*
- iii. *have deficiencies or significant deficiencies that appear to set standards higher than those mandated by professional standards;*
- iv. *for system reviews, have deficiencies or significant deficiencies that are not written systemically, or the systemic causes are not clear;*
- v. *do not have responses that appropriately address deficiencies or significant deficiencies identified in the peer review report; or*
- vi. *have responses that do not appropriately address nonconforming engagements, including responses that are unacceptably noncommittal, vague, or otherwise unclear or not responsive*

b. *When FFCs*

- i. *do not have a clear description of the finding from the reviewer and, on system reviews, do not include the systemic cause of the finding or*
- ii. *include a response from the reviewed firm that does not appear comprehensive, genuine, and feasible*

- c. *When any other peer review documents need revision for the RAB to conclude whether the review was performed and reported on in accordance with the standards*

[Paragraphs .A11–.A13 are renumbered to .A13–.A15. The content is unchanged.]

## **PR-C Section 420, *Corrective Actions and Implementation Plans***

[Paragraphs .01–.07 are unchanged.]

**.08** If a finding, deficiency, or significant deficiency relates to an area where prevalent nonconformity has been identified through the AICPA Enhancing Audit Quality Initiative *and the RAB determines CPE is an appropriate remedial action*, then specific CPE to address the common areas of noncompliance should be required by the RAB. *In these situations, e*ither an AICPA course or an alternative course with substantially the same content as the AICPA course should be required by the RAB. (Ref: par. .A4)

[Paragraphs .09–.10 are unchanged.]

**.11** If the RAB believes more extensive actions, beyond the allowable implementation plans in exhibits *A and C* ~~and D~~, are necessary (such as submitting documents to an outside party), the RAB needs to consider whether the findings should have been elevated to deficiencies in the report.

[Paragraphs .12–.15 and .A1–.A15 are unchanged.]

## **Exhibit C — Allowable Implementation Plans: System Reviews**

**.A16**

<b><u>Finding</u></b>	<b><u>Allowable Implementation Plan</u></b>
Nonconforming engagements and <ul style="list-style-type: none"> <li>• initial findings on a must-select industry or</li> <li>• repeat findings for any industry</li> </ul>	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE.</li> <li>• Require the firm to hire an outside party approved by the report acceptance body (RAB) to perform a pre-issuance or post-issuance review of certain types or portions of engagements.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm’s remediation of nonconforming engagements.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm’s completion of its intended remedial actions outlined in its response on the finding for</li> </ul>



	<p>further consideration (FFC) form or to evaluate the appropriateness of alternative actions.</p> <ul style="list-style-type: none"> <li>• Require the firm to hire an outside party approved by the RAB to review the firm’s internal monitoring or inspection report.</li> </ul>
Engagements indicate Repeat findings <i>without nonconforming engagements</i>	<ul style="list-style-type: none"> <li>• Require members of the firm to take specified types and amounts of CPE.</li> <li>• Require the firm to hire an outside party approved by the RAB to review the firm’s internal monitoring or inspection report.</li> </ul>
Failure to possess applicable firm licenses	<ul style="list-style-type: none"> <li>• Require the firm to submit proof of its valid firm licenses.</li> </ul>

[Paragraph .A17 is unchanged.]

## Appendix A — Guidance for Outside Parties Engaged to Assist Firms in Completing Corrective Actions and Implementation Plans

.A18 This appendix contains guidance for outside parties engaged to assist firms in completing corrective actions or implementation plans required as a condition of acceptance of the firm’s peer review.

[Paragraphs .01–.05 in appendix A are unchanged.]

### Reporting

.06 The outside party should draft a letter or report to the RAB describing the procedures performed and conclusions reached. The letter or report should

- a. be issued on the letterhead of the outside party’s firm,
- b. be addressed to the AE’s RAB with a copy to the reviewed firm, and
- c. include the following elements:
  - i. A description of the corrective actions or implementation plans required by the RAB
  - ii. A description of the representations made by the reviewed firm regarding the changes made by the firm since its most recent peer review
  - iii. A description of the procedures performed by the outside party, *including the period ends of any engagements reviewed or the report dates for financial forecasts, projections, or agreed-upon procedures engagements*
  - iv. 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

- v. A statement that the letter or report is intended for limited distribution to the RAB 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
- vi. Information enabling the RAB to evaluate whether the firm has improved
- vii. For system reviews, recommendations of additional actions if the outside party believes the results reveal continued weaknesses in the reviewed firm's system of quality control

[Paragraph .07 in appendix A is unchanged.]

## **PR-C Section 430, *Reviewer Monitoring and Performance***

[Paragraphs .01–.26 and .A1–.A2 are unchanged.]

**.A3** Examples of reviewer performance deficiencies that may be documented on a reviewer performance feedback form include, but are not limited to, the following:

- a. Related to engagement selection and review, the reviewer ~~did not~~
  - i. ***did not*** appropriately identify a nonconforming engagement prior to technical review, oversight, or RAB consideration ***and***
  - ii. ***did not*** demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight, or RAB consideration.
- b. Related to assessment and disposition of matters, the reviewer did not appropriately aggregate or evaluate matters noted on the review such that the RAB determined
  - i. a deficiency was present but the reviewer did not elevate the matter beyond a matter for further consideration (MFC) or
  - ii. a significant deficiency (or a *fail* report rating on an engagement review) was present but the reviewer did not elevate the matter beyond an FFC.

[Paragraphs .A4–.A32 are unchanged.]