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American Institute of Certified Public Accountants. Peer Review Board

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PR Section
PEER REVIEW

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PR Section

STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

NOTICE TO READERS

In order to be admitted or to retain their membership in the American Institute of Certified Public Accountants (AICPA) members of the AICPA who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program or, if practicing in firms not eligible to enroll, are themselves enrolled in such a program if the services performed by such a firm or, respectively, individual are within the scope of the AICPA's practice-monitoring standards and the firm or, respectively, individual issues reports purporting to be in accordance with AICPA professional standards. (Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as *shareholder*, *member*, or *proprietor*.)

A firm (or individual) enrolled in the AICPA peer review program or Center for Public Company Audit Firms (CPCAF) peer review program is deemed to be enrolled in an approved practice-monitoring program. (See *sections 2.2.3* and *2.3.4* and *7.6* of the bylaws of the AICPA, The Code of Professional Conduct *Rule 505*, and the implementing council resolutions under those sections.)

These standards are effective for peer reviews commencing on or after January 1, 2001 for firms (and individuals) enrolled in the AICPA peer review program. They are applicable to firms (and individuals) enrolled in this program and to individuals and firms who perform and report on such reviews, to entities administering reviews, and to associations of CPA firms assisting their members in arranging and carrying out peer reviews. Individuals using these standards should be knowledgeable about Interpretations issued by the AICPA Peer Review Board that might affect the application of these standards.

As indicated in Interpretation No. 12, firms that are required to be registered with and inspected by the Public Company Accounting Oversight Board are not eligible to enroll in the AICPA peer review program. Such firms must enroll in the Center for Public Company Audit Firms peer review program.

Reviews of firms enrolled in the CPCAF peer review program are carried out under the standards issued by the CPCAF's Peer Review Committee.

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PR Section 100

Standards for Performing and Reporting on Peer Reviews

Effective for peer reviews commencing on or after January 1, 2001.

See section 9100 for interpretations of this section.

Introduction

.01 Quality in the performance of accounting and auditing engagements by its members is the goal of the American Institute of Certified Public Accountants (AICPA) peer review program. The program seeks to achieve its goal through education and remedial, corrective actions. This goal serves the public interest and enhances the significance of AICPA membership.

.02 Firms (and individuals)[1] in the AICPA peer review program need to—

a. Establish and maintain appropriate quality control policies and procedures, and comply with them to ensure the quality of their practices.

b. Have independent peer reviews[2] of their accounting and auditing practices at least once every three years.

c. Take remedial, corrective actions as needed.

.03 Statement on Quality Control Standards (SQCS) No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* [QC section 20], requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It identifies five elements of quality control and states that the nature, extent, and formality of a firm's quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm's size, the number of its offices, the degree of operating autonomy allowed its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm's practice, and appropriate cost-benefit considerations.

.04 An accounting and auditing practice for the purposes of these standards is defined as all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS);[3] Statements on Standards for Attestation Engagements (SSAEs); and the *Government Auditing Standards* (the Yellow Book), issued by the U.S. General Accounting Office (GAO).

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[1] See Peer Review Standards Interpretations [section 9100] developed by the AICPA Peer Review Board for guidance related to individual enrollment requirements and applicability of these Peer Review Standards to individuals enrolled in the AICPA peer review program.

[2] For purposes of this document, the term peer review refers to system, engagement and report reviews unless specified otherwise.

[3] SSARS that provide an exemption from those standards in certain situations are likewise excluded from this definition of an accounting and auditing practice for peer review purposes.

.05 The objectives of the AICPA peer review program are achieved through the performance of peer reviews involving procedures tailored to the size of the firm and the nature of its practice. Firms that perform engagements under the SASs, *Government Auditing Standards* or examinations of prospective financial statements under the SSAEs have peer reviews called system reviews. Firms that only perform services under SSARS and/or services under the SSAEs not included in system reviews have peer reviews called engagement reviews. However, firms that only perform compilation engagements under SSARS where the firm has compiled financial statements that omit substantially all disclosures have peer reviews called report reviews.[4] Firms that do not provide any of the services listed in paragraph .04 are not reviewed. System reviews are performed at the reviewed firm's office, however, the AICPA Peer Review Board may issue guidance, by Interpretations, when system reviews may be performed at a location other than the reviewed firm's office.[5] Engagement and report reviews are normally performed at a location other than the reviewed firm's office.

.06 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high-quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to deficiencies in its system of quality control, its compliance with that system, or both. These actions will be positive and remedial. Disciplinary actions (including actions that can result in the termination of a firm's enrollment in the peer review program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners and employees) will be taken only for a failure to cooperate or for deficiencies that are so serious that remedial or corrective actions are not suitable.

General Considerations

Enrollment Requirements

.07 Firms (and individuals) enrolled or seeking enrollment in the AICPA peer review program should comply with Council resolutions [ET appendix B]. In addition, for firm's enrolled, at least one of its partners must be a member of the AICPA.[6]

Confidentiality

.08 A peer review should be conducted in compliance with the confidentiality requirements set forth by the AICPA in the section of the Code of Professional Conduct entitled "Confidential Client Information" [ET section 301]. Information concerning the reviewed firm or any of its clients or personnel, including the findings of the review, that is obtained as a consequence of the review is confidential. Such information should not be disclosed by review

[4] Firms that issue compilation reports under SSARS where "Selected Information—Substantially All Disclosures Required are Not Included" are required to have an engagement review.

[5] Reviewers should be alert to Peer Review Standards Interpretations [section 9100] developed by the AICPA Peer Review Board for guidance when system reviews may be performed at a location other than the reviewed firm's office.

[6] Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as *shareholder*, *member*, or *proprietor*.

team members to anyone not involved in carrying out the review or administering the program, or used in any way not related to meeting the objectives of the program.

.09 It is the responsibility of the reviewed firm to take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken. The reviewed firm may advise its clients that it will have a peer review and that accounting or auditing work for that client may be subject to review.

Independence, Integrity, and Objectivity

.10 Independence (in fact and in appearance) should be maintained with respect to the reviewed firm by a reviewing firm, by review team members, and by any other individuals who participate in or are associated with the review. In addition, the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities.

.11 *Independence* encompasses an impartiality that recognizes an obligation for fairness not only to the reviewed firm but also to those who may use the peer review report. The reviewing firm, the review team, and any other individuals who participate on the peer review should be free from any obligation to, or interest in, the reviewed firm or its personnel. The concepts in the AICPA Code of Professional Conduct's Article III, "Integrity," and Article IV, "Objectivity and Independence" [ET sections 54 and 55], should be considered in making independence judgments. In that connection, the specific requirements set forth in appendix A, "Independence Requirements" [paragraph .108], apply. *Integrity* requires the review team to be honest and candid within the constraints of the reviewed firm's confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. *Objectivity* is a state of mind and a quality that lends value to a review team's services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. The AICPA Peer Review Board may issue guidance, by Interpretations, related to Independence, Integrity, and Objectivity.[7]

Competence

.12 A review team conducting a peer review should have current knowledge of the professional standards applicable to the kind of practice to be reviewed. Individuals reviewing engagements should have recent experience in the industries of the engagements selected for review. See paragraph .18 for a description of the qualifications an individual should possess to serve on a review team.

Due Professional Care

.13 Due professional care, as addressed by the AICPA Code of Professional Conduct in Article V, "Due Care" [ET section 56], should be exercised in

[7] Reviewers should be alert to Peer Review Standards Interpretations [section 9100] developed by the AICPA Peer Review Board for guidance related to independence, integrity and objectivity.

performing and reporting on the review. This imposes an obligation on all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner.

Administration of Reviews

.14 Reviews intended to meet the requirements of the AICPA peer review program should be carried out in conformity with these standards under the supervision of a state CPA society or group of state CPA societies (synonymous with administering entity) approved by the AICPA Peer Review Board to administer peer reviews. This imposes an obligation on reviewed firms to arrange and schedule their reviews in compliance with the procedures established by the state CPA society administering its review, and to cooperate with the society and with the AICPA Peer Review Board in all matters related to the review.

Organization of the Review Team

.15 A review team may be formed by a firm engaged by the firm under review (a firm-on-firm review), a state CPA society participating in the program (a committee-appointed review team, also known as a CART review), or an association of CPA firms authorized by the AICPA Peer Review Board to assist its members by forming review teams to carry out peer reviews (an association review).

.16 A system review team is comprised of one or more individuals, depending upon the size and nature of the reviewed firm's practice. One member of the review team is designated the team captain. That individual is responsible for supervising and conducting the review, communicating the review team's findings to the reviewed firm and to the state CPA society administering the review, and preparing the report and, if applicable, the letter of comments on the review.[8] The team captain should supervise and review the work performed by other reviewers on the review team to the extent deemed necessary in the circumstances. All members of the system review team must be approved by the entity administering the peer review.

.17 The individual who actually performs an engagement or report review is designated as the reviewer, and that reviewer or in unusual circumstances any additional reviewers, must be approved by the entity administering the peer review.

Qualifications for Service as a Reviewer

General

.18 Performing and reporting on a peer review requires the exercise of professional judgment by peers. (See paragraphs .99 through .105 for a discussion of a reviewer's responsibilities when performing a peer review.) Accordingly, an individual serving as a reviewer (whether for a system, engagement or report review) should—

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[8] The plan of administration adopted by an association of CPA firms that assists its members in arranging and carrying out peer reviews may provide that the association will communicate the review team's findings to the state CPA society administering the review.

a. Be a member of the AICPA in good standing (that is, AICPA membership in active status) licensed to practice as a certified public accountant with a firm enrolled in the AICPA peer review program or the SEC Practice Section that, if reviewed, has received an unmodified report on its system of quality control or an unmodified report on its engagement review or off-site peer review.[9]

b. Possess current knowledge of applicable professional standards. This includes knowledge about current rules and regulations applicable to the industries for which engagements are reviewed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both.

c. Have at least five years of recent experience in the practice of public accounting in the accounting or auditing function.[10]

d. Be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program (that is, a firm enrolled in the AICPA peer review program or a firm that is a member of the SEC Practice Section) as a partner of the firm or as a manager or person with equivalent supervisory responsibilities.[11] To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.

.19 A reviewer of an engagement in a high-risk industry should possess not only current knowledge of professional standards but also current knowledge of the accounting practices specific to that industry. In addition, the reviewer of an engagement in a high-risk industry should have current practice experience in that industry. If a reviewer does not have such experience, the reviewer may be called upon to justify why he or she should be permitted to review engagements in that industry. The state CPA society administering the review has the authority to decide whether a reviewer's experience is sufficient to perform a particular review.

.20 An individual may not serve as a peer reviewer if his or her ability to practice accounting or auditing has been limited or restricted in any way by a regulatory, monitoring, or enforcement body until the limitation or restriction has been removed. If the limitation or restriction has been placed on the firm,

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[9] If a firm's most recent review was a report review, then the firm's members are not eligible to perform peer reviews.

[10] For this purpose, *recent* means having experience in the industries for which engagements are reviewed within the last five years. However, a reviewer should be cautious of those high-risk industries or industries in which new standards have been implemented. For example, in those cases in which new industry standards or practices have occurred in the most recent year, it may be necessary to have *current* practice experience in that industry in order to have *recent* experience.

[11] The AICPA Peer Review Board recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. These standards are not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise. For instance, a reviewer of auditing engagements should ordinarily be currently reviewing or performing auditing engagements and a reviewer of financial statements with disclosures (reviews and compilations) should also be currently reviewing or performing the same type of engagements.

or one or more of its offices, then none of the individuals associated with the firm, or the portion thereof, may serve as reviewers.

.21 If required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas who are not CPAs may assist the review team in a consulting capacity. For example, computer specialists, statistical sampling specialists, actuaries, or experts in continuing professional education (CPE) may participate in certain segments of the review.

.22 An individual who starts, or becomes associated with, a newly formed firm (which has not had a peer review) may serve as a system review team captain, or as an engagement or report reviewer during the twelve-month transitional period, beginning with the earlier of the dates of disassociation from the previous firm or of starting a new firm. The previous firm, if applicable, should have received an unmodified report on its most recently completed peer review, and the individual should have all of the other qualifications for service as a system review team captain, or as an engagement or report reviewer.

System Review Team Captain

.23 In addition to adhering to the general requirements for a reviewer, an individual serving as a team captain on a system review should—

a. Be a partner of an enrolled firm that has received an unmodified report on its system of quality control for its accounting and auditing practice for its most recently completed peer review. If the individual is associated with more than one firm, then each of the firms the individual is associated with should have received an unmodified report on its most recently completed peer review of its accounting and auditing practice.

b. Have completed a training course or courses that meet requirements established by the AICPA Peer Review Board.

Engagement and Report Reviewers

.24 In addition to adhering to the general requirements for a reviewer, an individual serving as a reviewer on an engagement or a report review should—

a. Be associated with a firm that has received, on its most recently completed peer review, either an unmodified report on its system of quality control or an unmodified report on its engagement review or off-site peer review. If the individual is associated with more than one firm, then each of the firms the individual is associated with should have received an unmodified report on its most recently completed peer review of its accounting practice.

b. Have completed a training course or courses that meet requirements established by the AICPA Peer Review Board.

Performing System Reviews

Objectives

.25 A system review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review—

a. The reviewed firm's system of quality control for its accounting and auditing practice has been designed in accordance with quality control standards established by the AICPA. See SQCS No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* [QC section 20].

b. The reviewed firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of conforming with professional standards.

.26 Firms have system reviews because of the public interest in the quality of the engagements covered under a system review, and the importance to the accounting profession of maintaining the quality of those services.

Peer Review Risk

.27 Just as the performance of an audit includes audit risk, the performance of a system review includes peer review risk. Peer review risk is the risk that the review team—

a. Fails to identify significant weaknesses in the reviewed firm's system of quality control for its accounting and auditing practice, its compliance with that system, or both.

b. Issues an inappropriate opinion on the reviewed firm's system of quality control for its accounting and auditing practice, its compliance with that system, or both.

c. Reaches an inappropriate decision about the findings to be included in, or excluded from, the letter of comments, or about whether to issue a letter of comments.

.28 Peer review risk consists of the following two parts:

a. The risk (consisting of *inherent risk* and *control risk*) that an engagement will fail to conform with professional standards, that the reviewed firm's system of quality control will not prevent such failure, or both.[12, 13]

b. The risk (*detection risk*) that the review team will fail to detect the design or compliance deficiencies in the reviewed firm's system of quality control that either result in the firm having less than reasonable assurance of conforming with professional standards or constitute conditions whereby there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements.

.29 Inherent risk and control risk relate to the reviewed firm's accounting and auditing practice and its system of quality control and should be assessed

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[12] *Inherent risk* is the likelihood that an accounting or auditing engagement will fail to conform with professional standards, assuming the firm does not have a system of quality control.

[13] *Control risk* is the risk that a firm's system of quality control will not prevent the performance of an engagement that does not conform with professional standards. It consists of two parts: the firm's control environment and its quality control policies and procedures. The control environment represents the collective effort of various factors on establishing, enhancing, or mitigating the effectiveness of specific quality control policies and procedures. The control environment reflects the overall attitude, awareness, and actions of firm management concerning the importance of quality work and its emphasis in the firm.

by the review team in planning the review. Based on that assessment, the review team determines the offices and engagements to be selected for review to reduce peer review risk to an acceptable low level. The lower the inherent and control risk, the higher the detection risk that can be tolerated and vice versa. The assessment of these risks is qualitative and not quantitative.

Basic Requirements

.30 A system review should include the following procedures:

a. Plan the review, as follows.

1. Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the review. See paragraph .40.
2. Obtain a sufficient understanding of the design of the firm's system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review. See paragraph .41.
3. Assess the peer review risk. See paragraphs .42 and .43.
4. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed, and to determine the nature and extent of the tests to be applied in the functional areas. See paragraphs .44 and .49.

b. Perform the review, as follows.

1. Review compliance by the firm with its system of quality control. The review should cover all organizational or functional levels within the firm.
2. Review selected engagements, including the relevant working paper files and reports. See paragraphs .50 and .54.
3. Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary.
4. Have an exit conference with senior members of the reviewed firm and at least the team captain to discuss the review team's findings and recommendations and the type of report it will issue. See paragraph .55.
5. Prepare a written report on the results of the review and, if applicable, a letter of comments. See paragraphs .72 through .79.
6. Review and comment to the reviewed firm on the firm's response to the letter of comments, if any. See paragraph .80.

.31 The AICPA Peer Review Board has authorized the issuance of programs and checklists, including engagement review checklists, to guide team captains and other members of the review team in carrying out their responsibilities under these standards. Failure to complete all relevant programs and checklists in a professional manner may create the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program. System reviews are subject to oversight by the AICPA and the administering entity.

Scope of the Review

.32 The review should cover a firm's accounting and auditing practice as defined in paragraph .04. It should be directed to the professional aspects of the firm's accounting and auditing practice; it should not include the business aspects of that practice. Moreover, review team members should not have contact with or access to any client of the reviewed firm in connection with the review.

.33 The review should cover a current period of one year to be mutually agreed-upon by the reviewed firm and the review team captain. Ordinarily, the review should be conducted within three to five months following the end of the year to be reviewed. Client engagements subject to selection for review, ordinarily should be those with periods ending during the year under review. For attestation engagements, including a financial forecast or projection, the selection for review ordinarily should be those with report dates during the year under review. If the current year's engagement is not completed and a comparable engagement within the peer review year is not available, the prior year's engagement should be reviewed. If the subsequent year's engagement has been completed, the review team should consider, based on its assessment of peer review risk, whether the more recently completed engagement should be reviewed instead.

.34 A firm is expected to maintain the same year-end on subsequent reviews. Nevertheless, circumstances may arise that require the firm to change its peer review year-end. In such situations, a firm may do so with the prior approval of the state CPA society administering its review.

.35 The team captain should obtain the report on the last review of the firm and, if applicable, the letter of comments and the response thereto, and the letter accepting those documents. The team captain should consider whether the matters discussed in those documents require additional emphasis in the current review and, in the course of the review, should evaluate the actions of the firm in response to the prior report and letter of comments.

.36 A divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance with the system of quality control for reports issued under the firm's name during that year. If the review team is able to review engagements of the divested portion of the reviewed firm's practice, then the review team should review such engagements considered necessary to obtain an appropriate scope for the peer review. In such circumstances, an appropriate scope is one in which the review covers all partners and significant industry areas that existed before the divestiture. If the divested portion of the practice is unavailable for review and represents less than ten percent of the reviewed firm's accounting and auditing hours, then the review team does not have to modify the report for a scope limitation. In all other circumstances, the review team should carefully assess the effects the divestiture has on the scope of the peer review. A review team captain who is considering whether a peer review report should be modified for a scope limitation due to a divestiture should consult with the state CPA society administering the review.

.37 A reviewed firm may have legitimate reasons for not permitting the working papers for certain engagements to be reviewed. For example, the financial statements of an engagement selected for review may be the subject of litigation or investigation by a government authority, or the firm may have been advised by a client that it will not permit the working papers for its engagement to be reviewed. In such circumstances, the review team should satisfy itself as to the reasonableness of the explanation. Also, in order to reach a conclusion that the excluded engagements do not have to be reported as a scope limitation, the review team needs to consider the number, size, and relative complexity of the excluded engagements, and should review other engagements in a similar area of practice as well as other work of the supervisory personnel who participated in the excluded engagements.

.38 In reviewing a practice office, the accounting and auditing practice to be reviewed includes reports issued for or to another office of the reviewed firm, a correspondent firm, or an affiliated firm. For those situations in which engagements selected in the practice office being reviewed include use of the work of another office, correspondent, or affiliate, the review team may limit its review to portions of the engagements performed by the practice office being reviewed, but should evaluate the appropriateness of the instructions issued by the reviewed office and the adequacy of the procedures followed to conform with professional standards.

.39 Reviewers should ask the state CPA society administering the review about any requirements of relevant state boards of accountancy that need to be met for the review to be accepted by such state board(s) as the equivalent of one performed under the state board's own positive enforcement program.

Understanding Accounting and Auditing Practice and System of Quality Control

.40 The review team should obtain a sufficient understanding of the nature and extent of the reviewed firm's accounting and auditing practice to plan the review. This understanding should include knowledge about the reviewed firm's organization and philosophy, as well as the composition of its accounting and auditing practice. This knowledge is ordinarily obtained through such procedures as inquiries of appropriate management personnel and requests of management to provide certain background information, some of which will have been provided to the review team before the review was accepted.

.41 SQCS No. 2 [QC section 20] requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that the quality control policies and procedures applicable to a professional service provided by the firm should encompass the following elements: independence, integrity, and objectivity; personnel management; acceptance and continuance of clients and engagements; engagement performance; and monitoring. The review team should obtain a sufficient understanding of the reviewed firm's system of quality control with respect to each element to plan the review. The understanding should include knowledge about the design of the reviewed firm's quality control policies and procedures in accordance with quality control standards established by the AICPA. This knowledge is ordinarily obtained through such procedures as inquiries of appropriate management and supervisory personnel, as well as reviewing the firm's responses to a questionnaire developed by the AICPA Peer Review Board.

Assessing Peer Review Risk

.42 In planning the review, the review team should use the understanding it has obtained of the reviewed firm's accounting and auditing practice and its system of quality control to assess the peer review risk associated with those areas. The higher the assessed levels of peer review risk, the greater the number of offices or engagements that need to be reviewed. The assessed level of peer review risk may be affected by circumstances arising within the firm (for example, individual partners have engagements in numerous specialized industries or the firm has a few engagements constituting a significant portion of the firm's accounting and auditing practice) or outside the firm (for example, new professional standards being applied for the first time or adverse economic developments in an industry).

.43 When assessing risk, the review team should evaluate the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the requirements contained in SQCS No. 2 [QC section 20]. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice. When making the evaluation, the review team should discuss with the firm how it considered the guidance provided in the AICPA's *Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

Extent of Compliance Tests

.44 Based on its understanding of the reviewed firm's accounting and auditing practice and system of quality control, and its assessment of peer review risk, the review team should consider whether any modifications to the programs and checklists issued by the AICPA Peer Review Board are appropriate. The team captain should then develop a general plan for the conduct of the review, including the nature and extent of compliance tests. The compliance tests should be tailored to the practice of the reviewed firm and, taken as a whole, should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed firm's system of quality control was complied with to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. Such tests should be performed at the practice office(s) visited and should relate either to broad functions or to individual engagements. The tests should include the following.

a. Review selected engagements, including working paper files and reports, to evaluate their conformity with professional standards and compliance with relevant firm quality control policies and procedures.

b. Interview firm professional personnel at various levels and, if applicable, other persons responsible for a function or activity, to assess their understanding of, and compliance with, the firm's quality control policies and procedures.

c. Review evidential matter to determine whether the firm has complied with its policies and procedures for monitoring its system of quality control.

d. Review other evidential matter as appropriate. Examples include selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with professional development requirements, and the firm's library.

Selection of Offices

.45 Visits to practice offices should be sufficient to provide the review team with a reasonable basis for its conclusions regarding whether the reviewed firm's quality control policies and procedures are adequately communicated throughout the firm and whether its system of quality control was complied with during the year under review based on a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those offices with higher assessed levels of peer review risk. Examples of the factors to consider when assessing peer review risk at the office level include the following:

a. The number, size, and geographic distribution of offices

b. The degree of centralization of accounting and auditing practice control and supervision

c. The review team's evaluation, if applicable, of the firm's monitoring procedures

d. Recently merged or recently opened offices

e. The significance of industry concentrations and of specialty practice areas, such as governmental compliance audits or regulated industries, to the firm and to individual offices

For a multioffice firm, the review should include a visit to the firm's executive office if one is designated as such.

Selection of Engagements

.46 When combined with other procedures performed, the number and type of accounting and auditing engagements selected by the review team for review should be sufficient to provide the review team with a reasonable basis for its conclusions regarding the reviewed firm's system of quality control. The conclusions must address whether the system has been designed in accordance with the quality control standards for an accounting and auditing practice established by the AICPA and was being complied with during the year under review.

.47 Engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk. Examples of the factors to consider when assessing peer review risk at the engagement level include size, industry area, level of service, personnel (including turnover, use of merged-in personnel, or personnel not routinely assigned to accounting and auditing engagements), litigation in industry area, and initial engagement.

.48 The AICPA Peer Review Board may, from time to time, by Interpretations, require that specific types of engagements be selected for review.[14] Examples are engagements required by a regulatory agency to be reviewed or those in particular areas in which public interest exists. Therefore, after selecting the engagements to be reviewed, based on the risk assessment, the team captain should ensure that the scope of the review includes any such required engagements.

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[14] Reviewers should be alert to Peer Review Standards Interpretations [section 9100] developed by the AICPA Peer Review Board that might affect the engagements selected for review.

.49 The process of engagement selection, like office selection, is not subject to definitive criteria. Nevertheless, if the team captain finds that meeting all of the preceding criteria results in the selection of an inappropriate scope of the firm's accounting and auditing practice, the team captain may want to consult with the state CPA society administering the review about the selection of engagements for review. In such circumstances, the team captain should carefully consider whether—

a. Adequate consideration has been given to the *key audit area* approach to engagement review. (This is discussed more fully in the AICPA peer review programs and checklists.)

b. Too much weight has been given to the desirability of reviewing work performed by all or most supervisory personnel.

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

Extent of the Review of Engagements

.50 The review of engagements should include the review of financial statements, accountants' reports, working paper files, and correspondence, as well as discussions with professional personnel of the reviewed firm. The review of audit engagements should ordinarily include all key areas of the engagements selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the reviewed firm's quality control policies and procedures.

.51 For each engagement reviewed, the review team should document whether anything came to its attention that caused it to believe the following.

a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles (GAAP) or, if applicable, an other comprehensive basis of accounting (OCBOA).

b. The firm did not have a reasonable basis under applicable professional standards for the report issued.

c. The documentation on the engagement did not support the report issued.

d. The firm did not comply with its quality control policies and procedures in all material respects.

.52 If the review team answers *yes* with respect to any of the preceding items, the team captain should promptly inform an appropriate member of the reviewed firm (generally on a "Matter for Further Consideration" form). The reviewed firm should investigate the matter questioned by the review team and determine what action, if any, should be taken. If the reviewed firm concludes that its report on previously issued financial statements is inappropriate, as addressed in the section of SAS No. 1 entitled "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report" [AU section 561], or the firm's work does not support the report issued, as addressed in SAS No. 46, *Consideration of Omitted Procedures After the Report Date* [AU section 390], the reviewed firm should take timely action, as appropriate, to correct such engagements. The reviewed firm should advise the team captain of the results of its investigation and document the actions taken or planned or its reasons for concluding that no action is required (generally on the "Matter for Further Consideration" form prepared by the reviewer).

.53 If the reviewed firm believes that it can continue to support its previously issued report and the review team continues to believe that there may be a significant failure to reach appropriate conclusions in the application of professional standards, the review team should pursue any remaining questions with the reviewed firm and, if necessary, with the state CPA society administering the review. The review team should also consider whether it is necessary to expand the scope of the review by selecting additional engagements to determine the extent and cause of significant departures from professional standards.

.54 In evaluating the reviewed firm's response, the review team should recognize that it has not audited the financial statements in question in accordance with generally accepted auditing standards (GAAS) and that it has not had the benefit of access to client records, discussions with the client, or specific knowledge of the client's business. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances and the reviewed firm should be aware that the state CPA society administering the review may refer unresolved matters to the AICPA Peer Review Board for a final determination.

Exit Conference

.55 Prior to issuing its report and, if applicable, letter of comments, the review team should communicate its conclusions to senior members of the reviewed firm at an exit conference, which may also be attended by representatives of state CPA society administering entities, the AICPA Peer Review Board, or other authorized organizations with oversight responsibilities. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the peer review report and about the findings and recommendations that will be included in the letter of comments. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. The exit conference is also the appropriate vehicle for providing suggestions to the firm that do not have an effect on the report or letter of comments.

Performing Engagement Reviews

Objectives

.56 The objectives of an engagement review are to provide the reviewer with a reasonable basis for expressing limited assurance that—

a. The financial statements or information and the related accountant's report on the accounting and review engagements and attestation engagements submitted for review, conform in all material respects with the requirements of professional standards; and *b.* The reviewed firm's documentation conforms with the requirements of SSARS and the SSAEs applicable to those engagements in all material respects.

These objectives are different from the objectives of a system review in recognition of the fact that engagement reviews are available only to firms that perform no engagements under the SASs, or examinations of prospective financial statements under the SSAEs. Firms required to have an engagement review may elect to have a system review.

Basic Requirements

.57 The criteria for selecting the peer review year-end and the period to be covered by an engagement review are the same as those for a system review (see paragraphs .33 and .34). The reviewed firm shall provide summarized information showing the number of its accounting and review engagements and attestation engagements, classified into major industry categories. That information should be provided for each partner of the firm who is responsible for the issuance of reports on such engagements. On the basis of that information, the reviewer or the state CPA society administering the review ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines.

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

1. Review of historical financial statements
2. Compilation of historical financial statements, with disclosures
3. Compilation of historical financial statements that omits substantially all disclosures
4. Attestation

b. One engagement should be selected from each partner of the firm responsible for the issuance of reports listed in item *a* above.

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

The preceding criteria are not mutually exclusive; one of every type of engagement that a partner performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in item *a* above performed by the firm are covered.

.58 For each engagement selected for review, the reviewed firm shall submit the appropriate financial statements or information and the accountant's report, masking client identity if it desires, along with specified background information, representations about each engagement and the firm's documentation required by SSARS and the SSAEs.

.59 An engagement review consists of reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations provided by the reviewed firm, and reviewing the documentation required by SSARS and the SSAEs submitted by the reviewed firm. In addition, an engagement review includes reviewing the firm's prior peer review report, and if applicable, letter of comment and letter of response.

.60 An engagement review does not include a review of working papers prepared on the engagements submitted for review (other than the documentation referred to in paragraph .59), tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system review. Accordingly, an engagement review does not provide the reviewer with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice. The reviewer's report does indicate, however, whether anything came to the reviewer's attention that caused him or her to believe that the reports submitted for review did not conform with the requirements of professional standards in all material respects or that the documentation on those engagements did not comply with the applicable requirements of SSARS and the SSAEs in all material respects.

.61 A firm that has an engagement review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing on a "Matter for Further Consideration" form. The reviewer will contact the firm, before issuing the peer review report, to resolve questions raised in the review.

.62 The reviewer performing an engagement review should document the work performed using the programs and checklists issued by the AICPA Peer Review Board for that purpose. Failure to complete all relevant programs and checklists in a professional manner may create the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program. Engagement reviews are subject to oversight by the AICPA and the administering entity.

.63 Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with the AICPA practice-monitoring requirement for engagement reviews.

Performing Report Reviews

Objectives

.64 The objective of a report review is to enable the reviewed firm to improve the overall quality of its compilation engagements that omit substantially all disclosures. To accomplish this objective, the reviewer provides comments and recommendations based on whether the submitted financial statements and related accountant's reports appear to conform with the requirements of professional standards in all material respects. Firms required to have report review may elect to have a system or engagement review.

Basic Requirements

.65 The criteria for selecting the peer review year-end and the period to be covered by a report review are the same as those for a system review (see paragraphs .33 and .34) and an engagement review. The reviewed firm shall provide summarized information showing the number of compilation engagements under SSARS, where the firm has compiled financial statements that omit substantially all disclosures, classified into major industry categories. That information should be provided for each partner of the firm who is responsible for the issuance of reports on such engagements. On the basis of that information, the reviewer or the state CPA society administering the review ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines:

a. One engagement should be selected from each partner of the firm responsible for the issuance of compiled financial statements that omit substantially all disclosures.

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

.66 For each engagement selected for review, the reviewed firm shall submit the appropriate financial statements and the accountant's report, masking client identity if it desires, along with specified background information and representations about each engagement.

.67 A report review consists of reading the financial statements submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations provided by the reviewed firm, including the firm's prior peer review report, and if applicable, letter of comment and letter of response.

.68 A report review does not include a review of the working papers prepared on the engagements submitted for review, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system or engagement review. Accordingly, a report review does not provide the reviewer with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice.

.69 A firm that has a report review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing. The reviewer will contact the firm, before issuing the peer review report, to resolve questions raised in the review.

.70 The reviewer performing report review should document the work performed using the programs and checklists issued by the AICPA Peer Review Board for that purpose. Failure to complete all relevant programs and checklists in a professional manner may create the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program. Report reviews are subject to oversight by the AICPA and the administering entity.

.71 Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with the AICPA practice-monitoring requirement for report reviews.

Reporting on System Reviews

General

.72 On a system review, the team captain should furnish the reviewed firm with a written report and, if required, a letter of comments within thirty days of the exit conference date or by the firm's peer review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the association's letterhead. All other reports are to be issued on the letterhead of the state CPA society administering the review. The report on a system review ordinarily should be dated as of the date of the exit conference.

.73 On a system review, the team captain or, where provided by its plan of administration, an authorized association of CPA firms should notify the state CPA society administering the review that the review has been completed and should submit to that state CPA society within thirty days of the exit conference date or by the firm's peer review due date, whichever date is earlier, a copy of the report and letter of comments, if any, and the working papers specified in the programs and checklists issued by the AICPA Peer Review Board.

.74 On a system review, the reviewed firm should submit a copy of the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments to the state CPA society administering the review within thirty days of the date it received the report and letter of comments or by the firm's peer review due date, whichever date is earlier. Prior to submitting the response to the state CPA society administering the review, the reviewed firm should submit the response to the team captain for review and comment.

Reports on System Reviews

.75 The written report on a system review should—

a. Indicate the scope of the review, including any limitations thereon.

b. Describe the purpose of a system of quality control for an accounting and auditing practice.

c. State that the system of quality control is the responsibility of the firm and the reviewer's responsibility is to express an opinion on the design of and compliance with that system based on the review.

d. State that the review was conducted in accordance with standards established by the Peer Review Board of the AICPA.

e. Describe the general procedures performed on a system review.

f. Describe the limitations of a system of quality control.

g. Express an opinion on whether the system of quality control for the accounting and auditing practice of the reviewed firm had been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was being complied with during the year reviewed to provide the firm with reasonable assurance of conforming with professional standards and, if applicable, describe the reason(s) for any modification of the opinion.

h. Refer to the letter of comments if a letter of comments is issued along with a modified or adverse report. The letter of comments should not be referred to in an unmodified report.

.76 A team captain may issue an unmodified, modified, or adverse report on the review. In deciding on the kind of report to be issued, the team captain should be guided by the considerations discussed in appendix B, "Considerations Governing the Type of Report Issued on a System Review" [paragraph .109]. The standard form for an unmodified report is illustrated in appendix C, "Standard Form for an Unmodified Report on a System Review" [paragraph .110]. Illustrations of modified and adverse reports are presented in appendix D, "Illustrations of Modified and Adverse Reports on a System Review" [paragraph .111].

Letters of Comments on System Reviews

.77 A letter of comments should be issued in connection with a system review if there are matters that resulted in modification(s) to the standard form of report or if there are matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements. The letter should provide reasonably detailed descriptions of the findings and recommendations so that the state CPA society administering the review can evaluate whether the actions taken or planned by the reviewed firm appear appropriate in the circumstances.

.78 If any of the matters included in the letter of comments were included in the letter of comments issued in connection with the firm's prior review, that fact should be noted in the description of the matter. In such situations, the team captain should evaluate the matter to determine whether the repeat finding is a result of the firm not appropriately implementing the action(s) it stated it would in its prior letter of response or the underlying cause(s) was incorrectly identified and, therefore, the action taken was inappropriate for correcting the matter. In the latter case, the team captain should discuss the matter in detail with the reviewed firm to determine the weakness in the firm's system of quality control that is causing the matter to occur.

.79 The letter of comments on a system review should be prepared in accordance with appendix E, "Guidelines for and Illustration of a Letter of Comments on a System Review" [paragraph .112].

Letters of Response on System Reviews

.80 On a system review, the reviewed firm should respond in writing to the review team's findings and recommendations on matters in the letter of comments. The response should be addressed to the state CPA society administering the review and should describe the actions taken or planned by the reviewed firm with respect to each matter in the letter of comments. If the reviewed firm disagrees with one or more of the comments, its response should describe the reasons for such disagreement. The reviewed firm should submit the response for review and comment to the team captain prior to submitting the response to the state CPA society administering the review in accordance with appendix F, "Illustration of a Response by a Reviewed Firm to a Letter of Comments on a System Review" [paragraph .113].

Reporting on Engagement Reviews

.81 The written report on an engagement review should—

a. State that the review was conducted in accordance with standards established by the Peer Review Board of the AICPA.

b. Describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm's system of quality control for its accounting practice.

c. Indicate whether anything came to the reviewer's attention that caused the reviewer to believe that the reports submitted for review did not conform with the requirements of professional standards in all material respects, or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects and, if applicable, describe the general nature of significant departures from those standards. If adverse, instead of indicating whether anything came to the reviewer's attention, the peer review report should state that the reports submitted for review by the firm did not conform with the requirements of professional standards in all material respects and/or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.

d. Refer to the letter of comments if a letter of comments is issued along with a modified or adverse report. The letter of comments should not be referred to in an unmodified report.

e. Ordinarily be dated as of the completion of the review procedures.

.82 In deciding on the type of report to be issued, the reviewer should be guided by the considerations in appendix G, "Considerations Governing the Type of Report Issued on an Engagement Review" [paragraph .114]. For illustrations, see "Standard Form for an Unmodified Report on an Engagement Review," in appendix H [paragraph .115], and appendix I, "Illustrations of Modified and Adverse Reports on an Engagement Review" [paragraph .116].

Letters of Comments on Engagement Reviews

.83 A letter of comments should be issued in connection with an engagement review if there are matters that resulted in modification(s) to the standard form of report or if the reviewer notes other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice. The letter should provide reasonably detailed descriptions of the findings and recommendations and should identify any comments on the current review that were also noted on the firm's previous review so that the state CPA society administering the review can evaluate whether the actions taken or planned by the reviewed firm appear appropriate in the circumstances.

.84 The letter of comments on an engagement review should be prepared in accordance with appendix J, "Guidelines for and Illustration of a Letter of Comments on an Engagement Review" [paragraph .117].

Letters of Response on Engagement Reviews

.85 The reviewed firm should respond in writing to the review team's findings and recommendations on matters in the letter of comments. The response should be addressed to the state CPA society administering the review and should describe the actions taken or planned by the reviewed firm with respect to each matter in the letter of comments. If the reviewed firm disagrees with one or more of the comments, its response should describe the reasons for such disagreement. The reviewed firm should submit the response for review and comment to the reviewer prior to submitting the response to the state CPA society administering the review. An illustration of a response by a reviewed firm for an engagement review is included in appendix K, "Illustration of a Response by a Reviewed Firm to a Letter of Comments on an Engagement Review" [paragraph .118].

Reporting on Report Reviews

.86 The written report on a report review should—

a. State that the review was conducted in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants.

b. Describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm's system of quality control for its accounting practice.

c. Include a list of comments and recommendations that should be considered by the reviewed firm based on the review of the engagements. The list should provide reasonably detailed descriptions of the comments and recommendations so that the reviewed firm can evaluate what appropriate actions should be taken under the circumstances.

d. Identify any comments on the current review that were also noted on the firm's previous review.

e. Ordinarily be dated as of the completion of the review procedures.

.87 On a report review, the reviewer prepares a written report after discussing the comments and recommendations with the firm and submits it to the reviewed firm and the administering entity within thirty days of the completion date, or by the due date, whichever is earlier. An authorized member of the firm is then required to sign the report, whether or not there are comments, acknowledging that there are no disagreements on significant matters and that the firm agrees to correct matters included as comments. The firm is then required to submit the signed copy of the report to the administering entity within thirty days of receipt of the report from the reviewer, or by the due date, whichever is earlier.

.88 The report on a report review should be prepared in accordance with appendix L, "Illustration of a Report on a Report Review" [paragraph .119].

Acceptance of System, Engagement, and Report Reviews

.89 The reviewed firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, its clients, or others until it has been advised that the report has been accepted by the state CPA society administering the review as meeting the requirements of the AICPA peer review program. Neither the state CPA society nor the AICPA shall make the results of the review available to the public, but on request may disclose the following information:

a. The firm's name and address

b. The firm's enrollment in the peer review program

c. The date of and the period covered by the firm's last peer review

d. If applicable, the termination of the firm from the program

.90 A committee or report acceptance body (hereinafter, the committee) should be appointed by each participating state CPA society for the purpose of considering the results of peer reviews it administers that are undertaken to meet the requirements of the peer review program. The activities of the committee should be carried out in accordance with administrative procedures issued by the AICPA Peer Review Board. Committee members may not participate in any discussion or have any vote with respect to a reviewed firm if the member lacks independence or has a conflict of interest with the reviewing firm, the reviewer, or the reviewed firm.

.91 The committee's responsibility on system and engagement reviews is to consider whether—

a. The review has been performed in accordance with these standards and related guidance materials.

b. The report, letter of comments, if any, and the response thereto are in accordance with these standards and related guidance material, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it will take in its letter of response.

c. It should require any remedial, corrective actions in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions are requiring certain individuals to obtain specified kinds and amounts of continuing professional education, requiring the firm to carry out more comprehensive monitoring procedures, or requiring it to engage another CPA to perform preissuance reviews of financial statements and reports, or to attempt to strengthen its professional staff.

d. It should monitor the corrective actions implemented by the reviewed firm. Examples of monitoring procedures are requiring the firm to submit information concerning CPE obtained by firm personnel, reports on the reviewed firm's monitoring of its practice, or reports by another CPA engaged to perform preissuance reviews of financial statements and reports. Revisits by team captains and accelerated peer reviews are other examples of monitoring procedures.

.92 In reaching its conclusions on the preceding items for a system or engagement review, the committee is authorized to make whatever inquiries or initiate whatever actions it considers necessary in the circumstances, including requesting revision of the report, the letter of comments, or the reviewed firm's response. Such inquiries or actions by the committee should be made with the understanding that the peer review program is intended to be positive and remedial in nature, and is based on mutual trust and cooperation. Accordingly, in deciding on the need for and nature of any additional corrective actions or monitoring procedures, the committee should consider the nature, significance, pattern, and pervasiveness of engagement deficiencies. It should evaluate whether the recommendations of the review team appear to address those deficiencies adequately and whether the reviewed firm's responses to those recommendations appear comprehensive, genuine, and feasible.

.93 If, after consideration of items .91*a* through .91*d* above on system and engagement reviews, the committee concludes that no additional corrective actions are deemed necessary, the committee will accept the report and so notify the reviewed firm. If additional actions by the reviewed firm or if monitoring procedures are deemed necessary, the firm will be required to evidence its agreement in writing before the report is accepted.

.94 On report reviews, a technical review is required to be performed by the administering entity, but committee consideration is not always required. The technical reviewer[15] should be delegated the authority from the committee to accept report reviews on the committee's behalf when the technical reviewer determines there are no significant issues on the report review. Situations where the technical reviewer should submit the report review for committee consideration and acceptance would include, but is not limited to those instances where there are repeat comments or comments considered significant by the technical reviewer where corrective or monitoring action taken by the firm would be appropriate. Although there may be other issues associated with the review warranting committee consideration, it is expected that the technical reviewer should be able to accept most report reviews on behalf of the committee. However, the technical reviewer alone may not impose corrective actions. The committee must consider any corrective actions.

.95 On report reviews that have been submitted by the technical reviewer to the committee for acceptance, the committee should tailor its acceptance process from paragraphs .91 through .93 and .99 through .105 considering the reasons the report review has been submitted to it for acceptance.

.96 In the rare event of a disagreement, between the administering entity and either the reviewer or the reviewed firm, (whether on a system, engagement or report review) that cannot be resolved by ordinary good-faith efforts, the administering entity may request that the matter be referred to the AICPA Peer Review Board for final resolution. In these circumstances, the AICPA Peer Review Board may consult with representatives of other AICPA committees or with appropriate AICPA staff.

.97 If any reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate, the AICPA Peer Review Board may decide, pursuant to due process procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the AICPA peer review program should be terminated or whether some other action should be taken. A firm that repeatedly receives peer reviews with consistent significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate.

.98 If a decision is made by the hearing panel to terminate a firm's enrollment in the AICPA peer review program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the findings. The trial board will have the authority to confirm or to reduce the severity of the findings, but it will not have the authority to increase their severity. The fact that a firm's enrollment in the AICPA peer review program has been terminated shall be published in such form and manner as the AICPA Council may prescribe.

Evaluation of Reviewers

.99 A team captain or reviewer (hereinafter, reviewer) has a responsibility to perform a review in a timely, professional manner. This relates not only

[15] The required qualifications, responsibilities and the role of technical reviewers are included in the AICPA Peer Review Program Report Acceptance Body Handbook which is provided to all administering entities.

to the initial submission of the report, letter of comments, if any, and working papers on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing omitted documentation of the work performed on the review or resolving questions raised by the committee or technical reviewer accepting the review.

.100 In considering peer review documents for acceptance, the committee evaluates the reviewer's performance on the peer review. If serious deficiencies in the reviewer's performance are noted on a particular review, or if a pattern of deficiencies by a particular reviewer is noted, then the committee, depending on the particular circumstances, will consider the need to impose corrective or monitoring actions on the service of the reviewer. The committee may require the reviewer to comply with certain actions, such as (but not limited to) the following, in order to continue performing reviews:

a. Attendance at a reviewer's training course and receipt of a satisfactory evaluation from the instructor of the course

b. Committee oversight on the next review performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as travel cost and per diem charges at the team captain rate established by the state CPA society for the review teams it forms)

c. Completion of all outstanding peer reviews before performing another review

d. Preissuance review of the report, letter of comments, and working papers on future reviews by an individual acceptable to the committee chair or designee who has experience in performing peer reviews

.101 In situations in which one or more of such actions is imposed, the state CPA society will inform the AICPA Peer Review Board, and may request that the AICPA Peer Review Board ratify the action(s) to be recognized by other administering entities and in the SEC Practice Section (SECPS) peer review program.

.102 If corrective or monitoring actions are imposed by the SECPS Peer Review Committee, those actions will also apply to peer reviews performed by the reviewer, unless the actions are specific to the SECPS peer review program, and need not be ratified by the AICPA Peer Review Board. In addition, any condition imposed on a reviewer will generally apply to the individual's service as a team captain or a team member unless the condition is specific to the individual's service as only a team captain or only a team member.

.103 If a reviewer refuses to cooperate with the committee, fails to correct material performance deficiencies, or is found to be seriously deficient in his or her performance, and education or other corrective or monitoring actions are not considered adequate to correct the deficiencies, the committee may recommend to the AICPA Peer Review Board that the reviewer be prohibited from performing peer reviews in the future. In such situations imposed by a committee, the AICPA Peer Review Board should ratify the action(s) taken by the committee for the reviewer's name to be removed from the list of qualified reviewers.

.104 Corrective or monitoring actions can be appealed only to the committee that imposed the actions. For actions imposed or ratified by the AICPA Peer

Review Board, if the reviewer disagrees with the corrective or monitoring action, he or she may appeal the decision by writing the AICPA Peer Review Board, and explaining why he or she believes that the actions are unwarranted. Upon receipt of the request, the AICPA Peer Review Board will review the request at its next meeting and take the actions it believes appropriate in the circumstances.

.105 If a reviewer is scheduled to perform a review after he or she has filed an appeal, but before the AICPA Peer Review Board has considered the appeal, then the review ordinarily should be overseen by a member of the committee at the reviewer's expense. If the reviewer has completed the fieldwork on one or more reviews prior to the imposition of the corrective or monitoring action, then the AICPA Peer Review Board will consider what action, if any, to take regarding those reviews, based on the facts and circumstances.

Qualifications of Committee Members

.106 Each member of a committee charged with the responsibility for acceptance of reviews should be—

a. Currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program as a partner of the firm or as a manager or person with equivalent supervisory responsibilities.

b. Associated with a firm that has received an unmodified report on its most recently completed system, engagement or off-site peer review.[16]

A majority of the committee members must also possess the qualifications required of a system review team captain.

Effective Date

.107 The effective date for this Standard is for peer reviews commencing on or after January 1, 2001. Early implementation is not allowed.

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[16] If a committee member's firm's most recent review was a report review, then the member is not eligible to be charged with the responsibility for acceptance of any peer reviews.

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Appendix A

Independence Requirements

Reciprocal Reviews

1. Reciprocal reviews are not permitted. This means that a firm may not perform a review of the firm that performed its most recent review. It also means that no professional may serve on a review team carrying out a review of a firm whose professional personnel participated in the most recent review of that professional's firm.

Relationships With Clients of the Reviewed Firm

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

Relationships With the Reviewed Firm

3. Reviewing firms should consider any family or other relationships between the management at organizational and functional levels of the reviewing firm and the firm to be reviewed and should assess the possibility of an impairment of independence.

4. If the fees for correspondent work, whether paid by the referring firm or by the client, involving the reviewed firm and the reviewing firm or the firm of any member of the review team are material to any of those firms, independence for the purposes of this program is impaired.

5. If arrangements exist between the reviewed firm and the reviewing firm or the firm of any member of the review team whereby fees, office facilities, or professional staff are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, frequent continuing education programs (CPE), extensive consultation, preissuance reviews of financial statements and reports, and audit and accounting manuals. In such circumstances, the firms involved are sharing materials and services that are an integral part of their systems of quality control. However, the impairment would be removed if an independent review was made of the shared materials (such as CPE programs or an audit and accounting manual) before the peer review commenced and that independent review was accepted by the SEC Practice Section

Peer Review Committee of the AICPA Division for CPA Firms before that date. (All quality control materials and CPE programs are accepted by the SECPS Peer Review Committee for both the SECPS and AICPA peer review programs. Therefore, firms that share materials and services are advised to consult with the SECPS peer review program if an independent review of such shared materials and services appears necessary.) Also, independence for the purposes of this program is not impaired by the performance of a review of a firm's quality control document, of a preliminary quality control procedures review or consulting review, or an inspection.

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Appendix B

Considerations Governing the Type of Report Issued on a System Review

Limitation on Scope of Review

1. A modified report should be issued when the scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, as indicated in the standards, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review for legitimate reasons. Ordinarily, however, the team would be unable to apply alternate procedures if a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began. A review team captain who is considering modifying the review report for a scope limitation should consult with the state CPA society administering the review.

The Nature and Significance of Engagement Deficiencies

2. The overriding objective of a system of quality control is to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. When a review team encounters significant failures to reach appropriate conclusions, particularly those requiring the application of AICPA Statement on Auditing Standards (SAS) No. 46, *Consideration of Omitted Procedures After the Report Date* [AU section 390], and the section of SAS No. 1 entitled "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report" [AU section 561], the team is faced with a clear indication that, in those engagements, the firm failed to conform to professional standards. The review team's first task in such circumstances is to try to determine the cause of the failure. Causes that might be systems-related and might affect the type of report issued include the following.

a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.

b. The failure related to a matter covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.

c. The failure should have been detected if the firm's quality control policies and procedures had been followed.

d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the state CPA society administering the review before reaching such a conclusion.

3. The failure to conform with professional standards on an engagement may be the result of an isolated human error and, therefore, does not necessarily mean that the review report should be modified or adverse. However, if the reviewer believes that the probable cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a significant failure to conform with professional standards on one engagement also exists in other engagements, the reviewer needs to consider carefully the need for a modified or adverse report.

The Pattern and Pervasiveness of Engagement Deficiencies

4. The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. As in the preceding section, the review team's first task is to try to determine why the deficiencies occurred. In some cases, the design of the firm's system of quality control may be deficient as, for example, when it does not provide for timely involvement in the planning process by a partner of the firm. In other cases, there may be a pattern of noncompliance with a quality control policy or procedure as, for example, when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were used only as a reference and not filled out. That, of course, makes effective review by a partner of the firm more difficult and increases the possibility that the firm might not conform with professional standards in a significant respect, which means that the reviewer must consider carefully the need for a modified or adverse report. On the other hand, the types of deficiencies noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the deficiencies were isolated cases of human error that should not result in a modified or adverse report.

Design Deficiencies

5. There may be circumstances in which the reviewer finds few deficiencies in the work performed by the firm and yet may conclude that the design of the firm's system of quality control needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as personnel management (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of conforming with professional standards in one or more important respects. However, in the absence of deficiencies in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in the letter of comments.

Forming Conclusions

6. To give appropriate consideration to the evidence obtained and to form appropriate conclusions, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of the evidence obtained cannot be evaluated primarily on a quantitative basis.

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Appendix C

Standard Form for an Unmodified Report on a System Review

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"*]

August 31, 20XX

To the Partners [*or other appropriate terminology*]
Able, Baker & Co.
or
To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [*Name of firm*] (the firm) in effect for the year ended June 30, 20XX.* A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of [*Name of firm*] in effect for the year ended June 30, 20XX, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied

* 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" is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

John Brown, Team Captain

[*or Name of reviewing firm*]

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Appendix D

Illustrations of Modified and Adverse Reports on a System Review

Report Modified for Design Deficiency

[*Separate paragraph after the standard first three paragraphs*]

Our review disclosed that the firm's quality control policies and procedures for engagement performance regarding audit planning were not appropriately designed. This matter is discussed in more detail in our letter of comments dated August 31, 20XX.

[*Opinion paragraph*]

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control [*discussion*].

Modified Report for Noncompliance With Quality Control Policies and Procedures

[*Separate paragraph after the standard first three paragraphs*]

Our review disclosed that the firm's quality control policies and procedures for engagement performance regarding completion of financial statement reporting and disclosure checklists were not followed. This matter is discussed in more detail in our letter of comments dated August 31, 20XX.

[*Opinion paragraph*]

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control [*discussion*].

Adverse Report

[*Separate paragraph after the standard first three paragraphs*]

Our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in conforming with the standards for accounting and review services. In that connection, our review disclosed that the firm's quality control policies and procedures were not appropriately designed because they do not require the preparation of a written audit program, which is required by generally accepted auditing standards.

In addition, our review disclosed failures to complete financial statement reporting and disclosure checklists required by firm policy and failures to review engagement working papers in the manner required by firm policy. These matters are discussed in more detail in our letter of comments dated August 31, 20XX.

[*Opinion paragraph*]

In our opinion, because of the deficiencies described in the preceding paragraph, the system of quality control for the accounting and auditing practice of [*Name of firm*] in effect for the year ended June 30, 20XX, has not been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was not complied with during the year then ended, to provide the firm with reasonable assurance of conforming with professional standards.

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Appendix E

Guidelines for and Illustration of a Letter of Comments on a System Review

Guidelines

1. The objectives of the letter of comments on a system review are set forth in the standards.

2. The letter should be addressed, dated, and signed in the same manner as the report on the system review, and should include the following:

a. A reference to the report on the review, indicating, where applicable, that the report was modified or adverse

b. A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control

c. The findings on the review and related recommendations (This section should be separated between those findings, if any, that resulted in a modified or adverse report and those that did not. In addition, the letter should identify, as applicable, any comments that were also made in the letter of comments issued on the firm's previous peer review.)

3. In addition to matters that resulted in a modified or adverse report, which must always be included in the letter, the letter of comments should include, according to the standards, "matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements." The letter should include comments on such matters even if they did not result in deficiencies on the engagements reviewed. If engagement deficiencies, particularly instances of nonconformity with professional standards, were attributable to deficiencies in the design of the firm's system of quality control or noncompliance with significant firm policies and procedures that are included in the letter, that fact should be noted in the comment.

4. Although isolated instances of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in a letter of comments, their nature, importance, causes (if determinable), and implications for the firm's system of quality control as a whole should be evaluated in conjunction with the review team's other findings before making a final determination.

Illustration of a Letter of Comments

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"*]

August 31, 20XX
[*Should correspond with date of report*]

To the Partners [*or other appropriate terminology*]
Able, Baker & Co.

or

To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [*Name of firm*] (the firm) in effect for the year ended June 30, 20XX, and have issued our report thereon dated August 31, 20XX (that was modified as described therein).* That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

Matters That Resulted in a Modified Report†

Engagement Performance

Finding—The firm's quality control policies and procedures do not require partner involvement in the planning stage of audit engagements. Generally accepted auditing standards permit the auditor with final responsibility for the engagement to delegate some of this work to assistants, but emphasize the importance of proper planning to the conduct of the engagement. We found an engagement in which, as a result of a lack of involvement, including timely supervision, by the engagement partner in planning the audit, the work performed on receivables and inventory did not appear to support the firm's opinion on the financial statements. The firm has subsequently performed the necessary additional procedures to provide a satisfactory basis for its opinion.

Recommendation—The firm's quality control policies and procedures should be revised to provide, at a minimum, for timely audit partner review of the preliminary audit plan and the audit program.

Matters That Did Not Result in a Modified Report‡

Engagement Performance

Finding—The firm's quality control policies and procedures require the completion of a financial reporting and disclosure checklist on each financial statement engagement. Our review disclosed the firm had not complied with this policy on all of the engagements reviewed. In each case in which a checklist was not completed, we also found certain financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional standards.

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* The phrase in parentheses should be included if the review team issues a modified or adverse report. The wording should be tailored to fit the circumstances of the engagement.

† This phrase is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.

‡ This caption is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.

Recommendation—The firm should hold training courses on proper completion of its financial reporting and disclosure checklist and re-emphasize its policy requiring completion of that checklist.

Monitoring

Finding—The firm's policies and procedures require that findings on engagements reviewed during the firm's annual inspection be summarized so that management can consider what kinds of actions, if any, are necessary. However, the firm did not summarize inspection findings from engagement reviews on the most recent inspection, even though each engagement partner considered and responded to findings on their individual engagements.

Recommendation—The firm should comply with its policy of summarizing inspection findings, considering the overall systems' implication of these findings and documenting management's monitoring of the actions taken. A partner in the firm should be designated to monitor the firm's compliance with this policy.

[*Same signature as on the report on the system review*]

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Appendix F

Illustration of a Response by a Reviewed Firm to a Letter of Comments on a System Review

The purpose of a letter of response is to describe the actions the firm has taken or will take to prevent a recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section herein entitled "Acceptance of Reviews"). The letter of response should be submitted to the team captain for review and comment prior to submitting the response to the state CPA society administering the review. If the firm has received a modified or adverse report, the firm's responses should be separated between those findings that resulted in a modified or adverse report and those that did not.

Sample Letter of Response

September 15, 20XX

[*Addressed to the state CPA society administering the review*]

Ladies and Gentlemen:

This letter represents our response to the letter of comments issued in connection with our firm's review of its system of quality control for the year ended June 30, 20XX. The matters discussed herein were brought to the attention of all professional personnel at a training session held on September 10, 20XX. In addition, the matters discussed in this letter will be monitored to ensure they are effectively implemented as a part of our system of quality control.

*Matters That Resulted in a Modified Report**

Partner Involvement in Audit Planning—The firm modified its quality control policies and procedures to require a partner to be involved in the planning stage of all audit engagements. In addition, we identified review engagements that are sufficiently large or complex to warrant partner involvement in the planning stage. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in the training session referred to previously.

*Matters That Did Not Result in a Modified Report**

Financial Reporting and Disclosure Checklists—All professional personnel were reminded of the importance of complying with the firm's policy requiring

* This caption is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.

completion of its financial reporting and disclosure checklist at the training session held on September 10, 20XX. In addition, the firm's engagement review questionnaire is being revised to require the engagement partner to document his or her review of the completed checklist. (The engagement review questionnaire is a brief form completed by the engagement partner and the manager at the conclusion of an audit to document their completion of their assigned responsibilities.)

Monitoring—A partner of the firm has been designated as responsible for summarizing the findings on the firm's annual inspection and monitoring the actions taken as a result of those findings to prevent their recurrence.

We believe these actions are responsive to the findings of the review.

Sincerely,

[*Name of firm*]

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Appendix G

Considerations Governing the Type of Report Issued on an Engagement Review

Circumstances Calling for a Modified Report

1. The objectives of an engagement review are to provide the reviewer with a reasonable basis for expressing limited assurance that the financial statements or information and the related accountant's report on accounting and review engagements and attestation engagements submitted for review, conform in all material respects with the requirements of professional standards and whether the reviewed firm's documentation conforms with the requirements of SSARS and the SSAEs applicable to those engagements in all material respects. Accordingly, if the review discloses significant departures from professional standards in the engagements reviewed, those departures should be clearly described in the peer review report as exceptions to the limited assurance expressed in the report. In this context, a significant departure from professional standards involves the following:

a. *A departure from the measurement or disclosure requirements of generally accepted accounting principles (GAAP) or, if applicable, an other comprehensive basis of accounting (OCBOA), that has or can have a significant effect on the user's understanding of the financial information presented and that is not described in the accountant's report*. Examples might include a failure to provide an allowance for doubtful accounts if it is probable that a material amount of accounts receivable is uncollectible; the use of an inappropriate method of revenue recognition; a failure to capitalize financing leases or to make important disclosures about significant leases; a failure to disclose significant related-party transactions; or a failure to disclose key assumptions in a financial forecast.

b. *The issuance of a report on an accounting or review engagement that is misleading in the circumstances*. Examples might include a review report on financial statements that omit substantially all of the disclosures required by GAAP; a compilation report on financial statements prepared on an OCBOA, that does not disclose the basis of accounting in the report or in a note to the financial statements.

c. *The issuance of a report on an attestation engagement that is misleading in the circumstances*. An example might include a review report that does not disclose the criteria against which the assertion was measured.

d. *The failure to obtain a management representation letter or the failure of the accountant's working papers to document the matters covered in the accountant's inquiry and analytical procedures on a review engagement.*

e. *Other departures from professional standards, noted in a significant number of engagements submitted for review, that individually may not be considered a significant departure from professional standards but collectively (or in the aggregate) would warrant the issuance of a modified report.* In reaching this decision, the reviewer should consider the significance and pervasiveness of the departures from professional standards.

Circumstances Calling for an Adverse Report

2. As indicated in these standards, an engagement review does not provide the reviewer with a basis for expressing any form of assurance on the reviewed firm's system of quality control. Therefore, deciding whether the findings of an engagement review support an adverse conclusion requires the careful exercise of professional judgment. In reaching a decision, the reviewer would ordinarily consider the significance of the departures from professional standards, as described previously, that were disclosed by the review and the pervasiveness of such departures. In that connection, the reviewer needs to give appropriate weight to the fact that the report on an engagement review only addresses conformity with professional standards and not compliance with the system of quality control.

Other Departures That May Require Disclosure

3. The reviewer may note other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice. The reviewer should describe these findings in the letter of comments (see appendix J, "Guidelines for and Illustration of a Letter of Comments on an Engagement Review" [paragraph .117]).

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Appendix H

Standard Form for an Unmodified Report on an Engagement Review

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"*]

August 31, 20XX

To the Partners [*or other appropriate terminology*]
Able, Baker & Co.

or

To John B. Able, CPA

We[*] have performed a peer review of selected engagements (engagement review) of the accounting practice of [*Name of firm*] for the year ended June 30, 20XX, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. [*Name of firm*] has represented to us that the firm performed no services under the Statements on Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) during the year ended June 30, 20XX.

An engagement review consists of reading selected financial statements or information and the accountant's report thereon, together with certain representations provided by the firm, and reviewing limited working papers for the purpose of considering whether the financial statements or information and the accountant's report appear to be in conformity with professional standards and whether the firm's documentation conforms with the requirements of Statements on Standards for Accounting and Review Services (SSARS) and the SSAEs applicable to those engagements in all material respects. An engagement review does not provide the reviewer with a basis for expressing any assurance as to the firm's system of quality control for its accounting practice, and we express no opinion or any form of assurance on that system.

In connection with our engagement review, nothing came to our attention that caused us to believe that the reports submitted for review by [*Name of firm*] for the year ended June 30, 20XX, did not conform with the requirements of professional standards in all material respects (or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.)[‡]/(and there was no documentation required for the engagements submitted for review.)[§]

John Brown, Reviewer[†]

[*or Name of reviewing firm*]

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[*] 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*" is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[‡] Language included when firm submits engagements with documentation requirements.

[§] Language included when firm has no engagements with documentation requirements.

[†] The description *Reviewer*, not *Team Captain*, should be used in reports on engagement reviews.

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Appendix I

Illustrations of Modified and Adverse Reports on an Engagement Review

[*See appendix H, "Standard Form for an Unmodified Report on an Engagement Review" [paragraph .115], for information about applicable letterhead and about addressing and signing the report. Modified and adverse reports should be tailored similarly to the third paragraph in the report in appendix H [paragraph .115] when the firm has no engagements with documentation requirements*.]

Modified Report for Significant Departures From Professional Standards

[*Separate paragraph, after the standard first two paragraphs, describing the significant matters that resulted in a modified report*]

Our review disclosed that the firm's review report on the financial statements of one of the engagements submitted for review did not disclose the failure to capitalize a financing lease, as required by generally accepted accounting principles (GAAP). Also, significant financial statement disclosure deficiencies concerning related-party transactions were noted in several of the engagements reviewed. These matters are discussed in more detail in our letter of comments dated August 31, 20XX.

[*Concluding paragraph*]

In connection with our engagement review, with the exception of the matter(s) described in the preceding paragraph, nothing came to our attention that caused us to believe that the reports submitted for review by [*Name of firm*] for the year ended June 30, 20XX, did not conform with the requirements of professional standards in all material respects or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.

Adverse Report

[*Separate paragraph, after the standard first two paragraphs, describing the significant matters that resulted in an adverse report*]

Our review disclosed several failures to adhere to professional standards in reporting on material departures from GAAP and in conforming with standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. In addition, the firm did not obtain management representation letters on review engagements. These matters are discussed in more detail in our letter of comments dated August 31, 20XX.

[*Adverse concluding paragraph*]

Because of the deficiencies described in the preceding paragraph, we do not believe that the reports submitted for review by [*Name of firm*] for the year ended June 30, 20XX, conform with the requirements of professional standards in all material respects or that the documentation on those engagements conform with the applicable requirements of SSARS and the SSAEs in all material respects.

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Appendix J

Guidelines for and Illustration of a Letter of Comments on an Engagement Review

Guidelines

1. The objectives of the letter of comments on an engagement review are set forth in the standards. Such letters are expected to be issued on many engagement reviews.

2. The letter should be addressed, dated, and signed in the same manner as the report on the engagement review, and should include the following:

a. A reference to the report on the review, indicating, where applicable, that the report was modified or adverse

b. A statement that the matters discussed in the letter were considered in preparing the report

c. The findings on the review and related recommendations (This section should be separated between those findings, if any, that resulted in a modified or adverse report and those that did not. In addition, the letter should identify, where applicable, any comments that were also made in the letter of comments issued on the firm's previous peer review.)

3. In addition to matters that resulted in a modified or adverse report, which must always be included in the letter, the letter of comments should include other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice.

Illustration of a Letter of Comments

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"*]

August 31, 20XX
[*Should correspond with date of report*]

To the Partners [*or other appropriate terminology*]
Able, Baker & Co.

or

To John B. Baker, CPA

We have performed a peer review of selected engagements (engagement review) of the accounting practice of [*Name of firm*] for the year ended June 30, 20XX, and have issued our report thereon dated August 31, 20XX (that was modified* as described therein). That report should be read in conjunction with the comments in this letter.

* The phrase in parentheses should be included if the review team issues a modified or adverse report. The wording should be tailored to fit the circumstances of the engagement.

Matters That Resulted in a Modified Report†

1. Finding—During our review, we noted that the firm did not modify its reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented on a comprehensive basis of accounting other than generally accepted accounting principles.

Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports that should have been modified to reflect a comprehensive basis of accounting other than generally accepted accounting principles. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

2. Finding—In the engagements that we reviewed, disclosures of related-party transactions and lease obligations as required by generally accepted accounting principles were not included in the financial statements, and the omission was not disclosed in the accountant's reports.

Recommendation—We recommend that the firm review the professional standards governing disclosures of related-party transactions and lease obligations and disseminate information regarding the disclosure requirements to all staff involved in reviewing or compiling financial statements. In addition, we recommend that the firm establish appropriate policies to ensure that all necessary related-party transactions and lease obligations are disclosed in financial statements reported on by the firm. For example, a step might be added to compilation and review work programs requiring that special attention be given to these areas.

3. Finding—During our review of the accountants' reports issued by the firm, we noted numerous instances in which the accompanying financial statements departed from professional standards and on which the accountants' reports were not appropriately modified. These included failure to do the following.

- Disclose material intercompany transactions.
- Appropriately recognize revenue.
- Present financial statements in a proper format.
- Recognize conflicting or incorrect information within the financial statements presented.

In one instance, the firm has discussed the departures with its client and decided to recall its report and restate the accompanying financial statements.

Recommendation—We recommend that the firm establish a means of ensuring its conformity with professional standards on accounting engagements. Such means might include continuing professional education in accounting and reporting, use of a reporting and disclosure checklist on accounting engagements, or a *cold* review of reports and financial statements prior to issuance.

4. Finding—On substantially all the engagements that we reviewed, we noted that the firm did not conform with the AICPA Statements on Standards for Accounting and Review Services for reporting on comparative financial statements and going concern issues.

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† This phrase is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.

Recommendation—We recommend that the firm review the requirements for reporting on comparative financial statements and revise the standard reports used by the firm to conform with these requirements. Also, the firm should review the requirements governing reporting on going concern issues and provide guidance to the staff in this area.

5. *Finding*—During our review we noted that the firm failed to obtain a management representation letter and its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures on a review engagement.

Recommendation—The firm should review and implement the requirements for obtaining management representation letters and the content of the accountant's working papers on review engagements.

Matters That Did Not Result in a Modified Report‡

6. *Finding*—During our review of computer-generated compiled financial statements prepared by the firm, we noted that the firm failed to indicate the level of responsibility it was taking for supplemental data presented with the basic financial statements.

Recommendation—The firm should revise the standard reports used by the firm to conform with professional standards governing reporting on supplemental data presented with basic financial statements.

7. *Finding*—We noted that computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) were properly reported on, but they used titles normally associated with a GAAP presentation.

Recommendation—The firm should review the professional standards governing the titles to be used if financial statements are prepared on a comprehensive basis of accounting other than GAAP and make sure that the software used by the firm is adjusted to conform with these standards. Until the software is revised, the firm should manually prepare the compiled financial statements in accordance with professional standards.

[*Same signature as on the report on the engagement review*]

‡ This caption is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.

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Appendix K

Illustration of a Response by a Reviewed Firm to a Letter of Comments on an Engagement Review

The purpose of a letter of response is to describe the actions the firm has taken or will take to prevent the recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section herein entitled "Acceptance of Reviews"). The letter of response should be submitted to the reviewer for review and comment prior to submitting the response to the state CPA society administering the review. If the firm has received a modified or adverse report, the firm's responses should be separated between those findings that resulted in a modified or adverse report and those that did not.

Sample Letter of Response

September 15, 20XX

[*Addressed to the state CPA society administering the review*]

Ladies and Gentlemen:

This letter represents our[*] response to the letter of comments on the engagement review of our firm's accounting practice for the year ended June 30, 20XX.

To prevent the recurrence of the disclosure deficiencies noted by the reviewer and to prevent other disclosure deficiencies from occurring, we have obtained copies of the AICPA reporting and disclosure checklists. These checklists will be completed on all review engagements and on all compilation engagements.

We have established procedures to ensure that our reports and the computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles reflect the appropriate titles.

We believe these actions are responsive to the findings of the review.

Sincerely,

[*Name of firm*]

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[*] The response should use the singular *I*, *me*, and *my* only when the reviewed firm is a sole practitioner.

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Appendix L

Illustration of a Report on a Report Review

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"*]

August 31, 20XX

To the Partners [*or other appropriate terminology*]
Able, Baker & Co.

or

To John B. Able, CPA

We have performed a peer review of selected compilation engagements (report review) of the accounting practice of Able, Baker, & Co. (the firm) for the year ended June 30, 20XX. A report review is available to firms that only perform compilation engagements under Statements on Standards for Accounting and Review Services (SSARS) where the compiled financial statements omit substantially all disclosures. Able, Baker & Co. has represented to us that the firm performed no services under the Statements on Auditing Standards, no services under the Statements on Standards for Attestation Engagements, no review engagements and no compilation engagements with selected or substantially all disclosures under SSARS during the year ended June 30, 20XX.

Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). A report review consists only of reading selected financial statements and the accountant's report thereon, together with certain representations provided by the firm. The objective of a report review is to enable the reviewed firm to improve the overall quality of its compilation engagements that omit substantially all disclosures. To accomplish this objective, the reviewer provides comments and recommendations based on whether the submitted financial statements and related accountant's reports appear to conform with the requirements of professional standards in all material respects. A report review does not provide the reviewer with a basis for expressing any assurance as to the firm's system of quality control for its accounting practice, and we express no opinion or any form of assurance on that system.

As a result of our report review, we have no comments or recommendations.

or

As a result of our report review, we have the following comments and recommendations:

1. *Comment*—During our review, we noted that the firm did not modify its reports on financial statements when the financial statements did not note that the statements were presented on a comprehensive basis of accounting other than generally accepted accounting principles (GAAP).

Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports that should have been modified to reflect a comprehensive basis of accounting other than GAAP. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

2. *Comment*—During our review of the accountants' reports issued by the firm, we noted numerous instances in which the accompanying financial statements departed from professional standards and on which the accountants' reports were not appropriately modified. These included failure to do the following.

- Appropriately recognize revenue.
- Present financial statements in a proper format.
- Recognize conflicting or incorrect information within the financial statements presented.

In one instance, the firm has discussed the departures with its client and decided to recall its report and restate the accompanying financial statements.

Recommendation—We recommend that the firm establish a means of ensuring its conformity with professional standards on accounting engagements. Such means might include continuing professional education in accounting and reporting, use of a reporting checklist on accounting engagements, or a cold review of reports and financial statements prior to issuance.

3. *Comment*—On substantially all the engagements that we reviewed, we noted that the firm did not conform with the AICPA Statements on Standards for Accounting and Review Services for reporting on comparative financial statements.

Recommendation—We recommend that the firm review the requirements for reporting on comparative financial statements and revise the standard reports used by the firm to conform with these requirements.

4. *Comment*—We noted that computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) were properly reported on, but they used titles normally associated with a GAAP presentation.

Recommendation—The firm should review the professional standards governing the titles to be used if financial statements are prepared on a comprehensive basis of accounting other than GAAP, and make sure that the software used by the firm is adjusted to conform with these standards. Until the software is revised, the firm should manually prepare the compiled financial statements in accordance with professional standards.

[*Smith & Jones, CPAs*]

[*Signature*]

Authorized acknowledgement for the reviewed firm:

I acknowledge that there are no disagreements on significant matters (and that the firm agrees to correct matters included as comments).*

Signature:__________________ Title:_______________ Date:________

[The next page is 17,901.]

* Phrase in parentheses must be included when there are comments.

PR Section 9000

INTERPRETATIONS OF THE STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

Interpretations of the Standards for Performing and Reporting on Peer Reviews (Standards) are developed in open meetings by the AICPA Peer Review Board (Board) for peer reviews of firms enrolled in the AICPA Peer Review Program. Interpretations need not be exposed for comment and are not the subject of public hearings. These Interpretations are applicable to firms enrolled in the Program, individuals and firms who perform and report on peer reviews, entities that participate in the administration of the Program, associations of CPA firms that assist their members in arranging and carrying out peer reviews, and the AICPA Program staff. Interpretations are effective upon issuance unless otherwise indicated.

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[The next page is 17,911.]

PR Section 9100

Standards for Performing and Reporting on Peer Reviews: Peer Review Interpretations of Section 100

1. System Reviews Performed at a Location Other Than the Practitioner's Office

.01 *Question*—Paragraph 5 of the *Standards for Performing and Reporting on Peer Reviews* [section 100.05] states: "The AICPA Peer Review Board may issue guidance, by Interpretations, when system reviews may be performed at a location other than the reviewed firm's office." What criteria has been established by the Board?

.02 *Interpretation*—A review conducted at the reviewer's office or another agreed-upon location can achieve the objectives of a system review provided that (1) the reviewed firm is a sole practitioner with four (excluding the sole practitioner) or fewer professional staff—or irrespective of the size of the firm, if the firm does not perform engagements covered by the Statements on Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements; (2) an authorized representative of the firm holds one or more meetings, by telephone or in person, with the reviewer to discuss the firm's responses to the quality control policies and procedures questionnaire, engagement findings, and the reviewer's conclusions on the review; (3) the firm did not receive a modified or adverse report on its last peer review; and (4) in addition to materials outlined in the "Instructions to Firms Having a System Review" (see AICPA Peer Review Program Manual PRP section 4100), the firm sends the following materials to the reviewer prior to the review:

a. All documentation related to the resolution of independence questions (1) identified during the year under review with respect to any audit or accounting client or (2) related to any of the audit or accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period

b. The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the firm acted as principal auditor or accountant

c. The most recent representations received from all professional staff concerning their conformity with applicable independence requirements

d. Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client

e. A list of relevant technical publications used as research materials, as referred to in the questions of the quality control policies and procedures questionnaire (see AICPA Peer Review Program Manual) *f.* A list of audit and accounting materials, if any, identified in response to the questions in the "Engagement Performance" section of the quality control policies and procedures questionnaire (see AICPA Peer Review Program Manual)

g. Continuing professional education (CPE) records sufficient to demonstrate compliance with state, AICPA and other regulatory CPE requirements

h. The relevant working paper files and reports on the engagements selected for review

i. Documentation of the firm's monitoring results for each year since the last peer review or enrollment in the program

j. Any other evidential matter requested by the reviewer

.03 In the event that deficiencies are noted during the review of selected engagements, the scope of the review may have to be expanded before the review can be concluded.

.04 The firm and the reviewer should mutually agree on the appropriateness and efficiency of this approach to the peer review.

[Issue Date: October, 2000; Revised: April, 2002; Revised: January, 2004.]

2. Engagement Selection in System Reviews

.05 *Question*—Paragraph 48 of the *Standards for Performing and Reporting on Peer Reviews* [section 100.48], states: "The AICPA Peer Review Board may from time to time, by Interpretations, require that specific types of engagements be selected for review—for example, engagements required by a regulatory agency to be reviewed or those in particular areas in which public interest exists." On a system review, what specific types and/or number of engagements, if any, should be included in the sample of engagements selected for review or assessed at a higher level of peer review risk?

.06 *Interpretation*—At least one of each of the following types of engagements is required to be selected for review on a system review:

a. Governmental—Government Auditing Standards (GAS, also known as the Yellow Book), issued by the U.S. General Accounting Office, require auditors conducting engagements in accordance with those standards to have a peer review that includes the review of at least one engagement conducted in accordance with those standards. If a firm performs an engagement of an entity subject to GAS and the peer review is intended to meet the requirements of those standards, at least one engagement conducted pursuant to those standards should be selected for review.

b. Employee Benefit Plans—Regulatory and legislative developments have made it clear that there is a significant public interest in, and a higher risk associated with, audits conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA). Therefore, if a firm performs the audit of one or more entities subject to ERISA, at least one such audit engagement conducted pursuant to ERISA should be selected for review.

c. Depository Institutions—The 1993 Federal Deposit Insurance Corporation (FDIC) guidelines implementing the FDIC Improvement Act of 1991 (the Act) require auditors of federally insured depository institutions having total assets of $500 million or greater at the beginning of its fiscal year to have a peer review that includes the review of at least one audit of an insured depository institution subject to the Act. If a firm performs an audit of a federally insured depository institution subject to the Act and the peer review is intended to meet the requirements of the Act, at least one engagement conducted pursuant to the Act should be selected for review. The review of that engagement should include a review of the reports on internal control or compliance with laws and regulations, since those reports are required to be issued under the Act.

.07 During the assessment of peer review risk on a system review, the following type of engagement should be assessed at a higher level of peer review risk:

a. Securities and Exchange Commission (SEC)—Firms that perform audits or play a substantial role in the audits of SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their SEC issuer practice inspected by the PCAOB. Therefore, such engagements would not be included in the scope of the AICPA Peer Review Program (Program) except as follows:

> The firm was never registered with the PCAOB and the firm resigned, declined to stand for reelection, or has been dismissed as auditor of all such clients prior to the PCAOB's requirement that firms discussed above be registered with the PCAOB by October 22, 2003. Therefore, because there is a significant public interest in, and a higher risk associated with audits of SEC issuers, such engagements should be assessed at a higher level of peer review risk. If a firm performs the audit of one or more SEC issuers with a year-end during the year under review (and only under the situation described above) and at least one such audit engagement is not selected for review, the review team should document its justification as to why in the Summary Review Memorandum. In addition, the reviewer should satisfy himself or herself that the SEC has been notified by appropriate filings of Form 8-Ks that the firm has resigned, declined to stand for reelection, or has been dismissed as auditor of such SEC issuer clients (and only under the situation described above). Peer reviewers should not review any audits of SEC issuers that were performed by the firm on or after October 22, 2003 under any circumstances. If a firm was never registered with the PCAOB when it was (is) required to be, the reviewer or the administering entity should immediately contact Program staff prior to the peer review commencing.

[Issue Date: October, 2000; Revised: January, 2004.]

3. Team Captain and Reviewer Training Courses

.08 *Question*—Paragraph 23 of the Standards for Performing and Reporting on Peer Reviews [section 100.23] states that a team captain on a system review should "have completed a training course or courses that meet requirements established by the AICPA Peer Review Board" in order to qualify for service as a team captain. Paragraph 24 of the Standards for Performing and Reporting on Peer Reviews [section 100.24] states that a reviewer on an engagement or report review should "have completed a training course or courses that meet requirements established by the AICPA Peer Review Board" in order to qualify for service as a reviewer. What specific type of course or courses, if any, should a system review team captain, engagement and report reviewer complete?

.09 *Interpretation*—To initially qualify as a system review team captain, an individual should complete the AICPA two-day introductory reviewer training course, "How to Conduct a Review Under the AICPA Practice-Monitoring Program" ("How to").

.10 *Interpretation*—In order to maintain qualifications of a system review team captain individuals should participate in eight (8) hours in continuing professional education in peer review training within three years prior to the commencement of a review. The reviewer should complete a combination of the following courses which combined totals the eight (8) hour requirement: the AICPA two-day introductory "How to" training course; the AICPA one-day advanced reviewer training course, "Advanced Training Course for Reviewers: Current Issues in Practice Monitoring"; the AICPA annual Peer Review Program Conference; AICPA Peer Review Board—RAB Training Course (may only be taken once per calendar year); or other courses approved by the AICPA Peer Review Board.

.11 *Interpretation*—To qualify initially as an engagement or a report reviewer, an individual should have completed the first day of the AICPA two-day introductory "How to" training course. The first day of the two-day course does not, however, fulfill the initial or continuing education requirements for service as a system review team captain. In order to maintain qualifications of an engagement or report reviewer, individuals should participate in eight (8) hours in continuing professional education in peer review training within three years prior to the commencement of a review. All of the courses mentioned in paragraph .10 of this Interpretation fulfill the continuing education requirements for service as an engagement or a report reviewer (and if the "How to" training course is taken, only the first day needs to be attended).

[Issue Date: October, 2000; Revised: January, 2004.]

4. Minimum CPE Requirement for Peer Reviewers

.12 *Question*—Paragraph 18(*b*) (32(*b*) for 2005) of the AICPA *Standards for Performing and Reporting on Peer Reviews* [section 100.18(*b*)] states that an individual serving as a reviewer should possess current knowledge of applicable professional standards. This includes knowledge about current rules and regulations applicable to the industries for which engagements are reviewed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Is there a minimum amount of continuing professional education (CPE) required to be a reviewer?

.13 *Interpretation*—The fundamental purpose of CPE is to maintain and/or increase professional competence. AICPA members are required to participate in 120 hours of CPE every three years. In order to maintain current knowledge of accounting and auditing standards, reviewers should obtain at least 40 percent of the AICPA required CPE in subjects relating to accounting and auditing. Reviewers should obtain at least eight (8) hours in any one year and forty-eight hours every three years. The term *accounting and auditing* should be interpreted as CPE that would maintain current knowledge of accounting and auditing standards for engagements that fall within the scope of peer review as described in the AICPA *Standards for Performing and Reporting on Peer Reviews* [section 100.04].

.14 Reviewers have the responsibility of documenting that they have complied with the CPE requirement. Reviewers should maintain detailed records of the CPE they complete in the event they are requested to verify their compliance. The reporting period will be the same as the reviewer maintains for the AICPA.

[Issue Date: October, 2000; Revised: August, 2002; Revised: January, 2004.]

5. Independence, Integrity, and Objectivity

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

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

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

.18 *Interpretation*—Yes.

.19 *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?

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

.21 *Question*—Firm A has an arrangement with Firm B whereby Firm A sends its staff to continuing education programs developed by Firm B. Can Firm B perform a peer review of Firm A?

.22 *Interpretation*—No, unless Firm B has had its continuing education programs reviewed by an independent party. The independent review should be similar to the review of quality control materials and should meet the same review and reporting standards. If such an independent review is not undertaken and reported on before the peer review commences, Firm B would not be considered independent for purposes of conducting the peer review. However, occasional attendance by representatives of Firm A at programs developed by Firm B would not preclude Firm B from reviewing Firm A.

.23 *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?

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

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

.26 *Interpretation*—Yes, unless the following are present:

a. The frequency and extent of the pre-issuance review(s) is such that Firm A is an integral part of Firm B's accounting or auditing practice or;

b. The pre-issuance review(s) was performed on an engagement within the current peer review year.

.27 *Question*—Firm B uses Firm A's accounting and auditing manual as its primary reference source. Can Firm A perform a peer review of Firm B?

.28 *Interpretation*—No, unless Firm A has had its accounting and auditing manual and any other of its reference material used by Firm B as a primary reference source reviewed by an independent party. The independent review of the materials should be similar to the review of quality control materials in associations and should meet the same review and reporting standards. (See PRP Section 9100.05, *Guidelines for Associations of CPA Firms in the AICPA Peer Review Program*.) If such an independent review is not undertaken and reported on before the peer review commences, Firm A would not be considered independent for purposes of conducting the peer review. However, if the manual is used only as a part of the firm's overall reference library, independence would not be impaired.

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

.30 *Interpretation*—No. Although the *Standards for Performing and Reporting on Peer Reviews* [section 100] state that reciprocal reviews are not permitted, that provision is intended only to prohibit back-to-back reviews when each firm has not had an intervening review by another firm or team.

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

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

.33 *Question*—Can Firm A be engaged by Firm B to conduct an inspection of Firm B's accounting and auditing practice or a consulting review and subsequently be engaged to perform a peer review of Firm B?

.34 *Interpretation*—Yes.

.35 *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?

.36 *Interpretation*—No, unless any fees paid to Firm B are not material to either of the firms; the firms do not share directly or indirectly, or participate in, the profits of the other; the firms do not share fees, office facilities or professional staff; 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.

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

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

.39 *Question*—A group of firms (whether or not it uses a common name) 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 2500 industry clients nationwide and that each of the member firms passed its most recent peer review. A toll-free telephone number or Internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

.40 *Interpretation*—Yes, provided the group has filed a plan of administration with AICPA Practice Monitoring that has been accepted by the AICPA Peer Review Board since the representations in the advertisement are objective or quantifiable.

.41 *Question*—What would constitute "objective and quantifiable" with respect to representations made in advertisements by a group of CPA firms, such as in brochures, pamphlets, web sites, etc.?

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

.43 *Question*—Certain members of an association (i.e., parent association) may form a partnership or sub-association, which is a grouping of association member firms for the purpose of joint marketing of products or 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?

.44 *Interpretation*—Although a member of a sub-association cannot peer review another member of the same sub-association, the existence of a sub-association by itself should not disqualify members of the sub-association from performing peer reviews of nonaffiliated member firms of the parent association. However, members of a sub-association should not perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association if there appears to be a lack of independence, such as the following:

a. The parent association has a direct or material indirect financial interest in the sub-association.

b. The sub-association has the same or a similar name of the parent association.

c. The parent association and the sub-association share and use the same facilities, such as: offices, telephone numbers, employees, letterhead, and marketing materials.

.45 *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 and/or profits 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?

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

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

.48 *Interpretation*—Yes.

.49 *Question*—Firm A and Firm B have shared office facilities for the last several years. Due to the growth of both firms, Firm B moved into new offices on January 1, 2001. In March 2003, Firm A engaged Firm B to perform the peer review of Firm A. Firm A's peer review year-end is December 31, 2002. Can Firm A perform the peer review of Firm B?

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

[Issue Date: October, 2000; Revised: January, 2004.]

6. Individual Enrollment in the AICPA Peer Review Program

.51 *Question*—The membership of the AICPA has amended its bylaws to require individual CPAs to enroll (not the firm) in an Institute-approved practice-monitoring program if they perform compilation services in firms or organizations not eligible to enroll in such a program. To reflect this amendment, paragraph 2 of the *Standards* [section 100.02] now refers to "firms and individuals in the AICPA peer review program." What is meant by "firms or organizations not eligible to enroll," and can any AICPA member enroll in the AICPA peer review program as an individual?

.52 *Interpretation*—Prior to the bylaw amendment, individuals did not enroll in an Institute-approved practice-monitoring program. Only firms meeting the requirements under The Code of Professional Conduct (ET Appendix B, *Council Resolution Concerning Rule 505—Form of Organization and Name*), would have been eligible to enroll as a firm in the AICPA peer review program. The main attribute of such a firm is still that a majority of the ownership of the firm, in terms of financial interests and voting rights, must belong to CPAs. The amendment to the bylaw would not change the requirement that a firm must enroll in the AICPA peer review program if the majority of the ownership belongs to CPAs. A firm or organization without CPA majority ownership (a non-CPA owned entity) would not be eligible to enroll in the AICPA peer review program. The characteristics of such a firm are discussed in ET Appendix B (referred to above). Under the bylaw amendment, where the firm or organization is not eligible to enroll, such as due to a lack of majority ownership by CPAs, and the individual AICPA member performs compilation services in the firm or organization, the AICPA member is now required to enroll individually in an Institute-approved practice-monitoring program. Therefore, the bylaw amendment only allows AICPA members meeting these criteria to enroll individually. Individual AICPA members who are only practicing with a firm that is eligible to enroll in an AICPA approved practice-monitoring program may not enroll in such a program individually.

.53 *Question*—The *Standards for Performing and Reporting on Peer Reviews (Standards)* [section 100] as well as its Interpretations and guidance materials for the AICPA peer review program, use the term "firm" throughout the materials. When an individual is appropriately enrolled in the AICPA peer review program how does the term "firm" now apply to the enrolled individual and are there any situations where the *Standards* [section 100], Interpretations or Guidance is intended to be directed at the actual firm or organization that was not eligible to enroll?

.54 *Interpretation*—As an alternative to rewriting all of the *Standards* [section 100] to reflect individual enrollment, the term "firm," as it appears in the *Standards* [section 100] should be applied to the enrolled individual and not the firm or organization in which the individual is practicing public accounting that was not eligible to enroll. Under the characteristics of a firm not eligible to enroll in the AICPA peer review program there must be a CPA who has ultimate responsibility for any financial statement compilation services and non-CPA owners cannot assume ultimate responsibility for any such services. In addition, any compilation report must be signed individually by a CPA, and may not be signed in the name of the firm or organization.

.55 *Question*—When performing the peer review of an enrolled individual in the peer review program, what type of peer review would be required, what peer review materials would be used, and what changes would be necessary to the peer review report, and if applicable, the letter of comments?

.56 *Interpretation*—As with any peer review, the types of engagements performed dictate the type of peer review required. Since the enrolled individual could only be performing compilation services, this would dictate the peer review required. However, the individual could elect to have a higher-level peer review. The current peer review materials can still be used as long as the peer reviewer indicates that the peer review was that of an enrolled individual and not a firm or organization. Similarly, the report, and if applicable, the letter of comments and letter of response, as well as other peer review documents and correspondences, should be tailored so that it is very clear that only the individual is being peer reviewed and not the firm or organization. The AICPA Peer Review Board may specifically revise the peer review materials at a later date, in order to reflect enrolled individuals.

.57 *Question*—If an individual enrolled in the AICPA peer review program receives an unmodified report on his or her engagement review and meets all other individual qualifications for service as a peer reviewer including independence considerations, can that individual perform peer reviews?

.58 *Interpretation*—Yes. However, the individual alone would be the peer reviewer and not the firm or organization that was not eligible to enroll in an Institute-approved practice-monitoring program. The peer reviewer should make this fact very clear.

.59 *Question*—As discussed in paragraph 98 of the *Standards* [section 100.98], can a hearing panel decide to terminate an individual's enrollment in the AICPA peer review program?

.60 *Interpretation*—Yes. The due process related to hearings and appeals to the AICPA Joint Trial Board for individuals enrolled in the AICPA peer review program would parallel the process for enrolled firms, including publication of termination in such form and manner as the AICPA Council may prescribe. If a hearing panel decides to terminate an individual's enrollment in the AICPA peer review program, that individual can appeal to the AICPA Joint

Trial Board. When the fact that an individual's enrollment has been terminated is published, the name of the firm or organization that was not eligible to enroll in an Institute-approved practice-monitoring program, with which the individual was practicing, is not published.

[Issue Date: October, 2000; Revised: January, 2004.]

7. Compilations Performed Under the Statement on Standards for Accounting and Review Services (SSARS) No. 1, Amended by SSARS No. 8, Where No Compilation Report Is Issued

.61 *Question*—The Statement on Standards for Accounting and Review Services (SSARS) No. 1 [AR section 100] has been amended by SSARS No. 8, *Amendment to Statement on Standards for Accounting and Review Services No. 1*, Compilation and Review of Financial Statements [AR section 100], to include compilations of financial statements where in very specific situations, the accountant may document its understanding with the entity through the use of an engagement letter instead of issuing a compilation report. This approach is only available when the accountant submits unaudited financial statements to his or her client that are not expected to be used by a third party (i.e. compilation for management's use only). The AICPA bylaws state that firms (or individuals in certain situations) are only required to enroll in an Institute-approved practice-monitoring program if they perform services that are within the scope of the AICPA's practice-monitoring standards *and issue reports* purporting to be in accordance with AICPA professional standards. Therefore, for purposes of individual AICPA membership admission and retention, firms (or individuals) that only perform these types of compilations where no report is issued, and no other engagements within the scope of peer review as discussed in paragraph 4 **(3 for 2005)** of the Standards [section 100.04], would not be required to enroll in an Institute-approved practice-monitoring program. Would the compilations for management's use only be subject to peer review when the firm is already enrolled in the peer review program because, for example, it performs services and issues reports on other engagements that are within the scope of the AICPA's practice-monitoring standards?

.62 *Interpretation*—Yes. For firms enrolled in the AICPA peer review program, the compilations for management's use only as described in SSARS No. 8 [AR section 100] would fall within the scope of peer review. The *Standards for Performing and Reporting on Peer Reviews* [section 100] (and *Statement on Quality Control Standards No. 2* [QC section 20]) include within the definition of an accounting and auditing practice, all engagements covered by SSARS except where SSARS provides an exemption from those standards.

.63 *Question*—The current *Standards for Performing and Reporting on Peer Reviews* [section 100] and guidance materials are written referring to "reports" throughout and do not consider an engagement performed under SSARS No. 8 [AR section 100] where a compilation report is not issued. What general guidance should be followed by peer reviewers?

.64 *Interpretation*—Since all of the *Standards for Performing and Reporting on Peer Reviews (Standards)* [section 100] and related guidance materials will not currently be rewritten for this matter, for purposes of the AICPA peer review program only, the required documentation as detailed in SSARS No. 8 [AR section 100] should be treated as though they were "reports" (as reports are discussed and referred to in the *Standards* [section 100]). This documentation would not be considered "reports" for bylaw purposes.

.65 *Question*—On an engagement review, should the last sentence of the unmodified or modified report still refer to documentation when, for example, the engagements reviewed include a compilation with disclosures and a management use only compilation issued with an engagement letter?

.66 *Interpretation*—Yes, because although the engagement letter is treated like a "report" for peer review purposes, it is still considered a documentation requirement under SSARS.

.67 *Question*—Specifically, what should the peer reviewer be reviewing on such an engagement on a system, engagement or report review?

.68 *Interpretation*—SSARS No. 8 [AR section 100] requires the accountant to document the understanding of the engagement with the entity through the use of an engagement letter. The reviewer is to review the engagement letter to determine that the documentation of the understanding includes the requirements detailed in SSARS No. 8 [AR section 100]. The reviewer should also review the financial statements to determine that the required restriction of their use is on each page. Except for the restriction of use, the reviewer should not be reviewing the financial statements, disclosures or supplementary information for accuracy, appropriateness, or conformity with professional standards.

.69 *Question*—Must a peer reviewer select such an engagement on a system, engagement or report review?

.70 *Interpretation*—No. This engagement is not a new level of service. It is still a compilation that either contains all disclosures required by generally accepted accounting principles or an other comprehensive basis or the disclosures are omitted. The *Standards for Performing and Reporting on Peer Reviews* [section 100] already discuss the engagement selection process for such engagements in engagement and report reviews. In addition, a system review requires the peer reviewer to use a risk-based approach when selecting engagements. SSARS No. 8 [AR section 100] does not change the existing engagement selection process.

.71 *Question*—Should the standard language in the peer review report or letter of comments be tailored on a system, engagement or report review, if such engagement(s) are selected for review, to reflect the fact that these are compilations with documentation requirements and issued without a compilation report?

.72 *Interpretation*—No.

[Issue Date: October, 2000; Revised: January, 2004.]

8. Defining the Acceptance and Completion Dates on a Peer Review

.73 *Question*—The *Standards for Performing and Reporting on Peer Reviews* (*Standards*) [section 100] refers to *acceptance* and *completion* of peer reviews in several contexts, such as when a review can be publicized, and the qualifications for service as a peer reviewer and a committee member. Is there a difference between the acceptance and completion dates of a peer review?

.74 *Interpretation*—There is no difference in those cases where the report, letter of comments and letter of response, thereto, if applicable (peer review documents) are presented to the administering entity's peer review committee (committee), and the committee requires no corrective action(s) by the reviewed firm, nor are there any revisions necessary to the peer review documents. In this circumstance, the date that the committee (or technical reviewer on a report review) makes this decision is defined as the acceptance date, and is also defined as the completion date of the peer review. The acceptance date is noted in a letter from the administering entity to the reviewed firm.

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

.76 *Interpretation*—In either of the situations described in paragraphs .74 or .75 above, the committee may require revisions to any of the peer review documents. In those cases, a review may not be deemed as accepted nor completed until such time that the peer review document(s) is (are) revised to the satisfaction of the committee.

[Issue Date: August, 2002; Revised: January, 2004.]

9. Significant Issues, Matters, and Comments on a Report Review

.77 *Question*—Paragraphs 87 and 94 of the Standards [section 100.87 and .94] and the acknowledgement sentence in the report issued on a report review (Appendix L [section 100.119]) refers to "significant matters," "significant issues," and "significant comments." What are some types of matters, issues and comments that should be deemed as significant for purposes of a report review?

.78 *Interpretation*—Significant issues on a report review may include, but are not limited to: issues that the technical reviewer may deem significant enough to warrant committee consideration on a case by case basis such as: reviewer performance issues, overdue reviews, and unusual technical issues or reviews with a separate response, where although not always required, may be appropriate for committee consideration.

.79 *Interpretation*—Significant matters and comments on a report review may include incomplete, missing, or incorrect elements of the report or financial statements where corrective action imposed by the peer review committee and taken by the firm would be appropriate. Examples of these types of significant matters and comments include but are not limited to:

a. Financial statements prepared on an other comprehensive basis of accounting and that basis is not disclosed in either the accountant's report or the financial statements.

b. Failure to include a statement of cash flows in a GAAP prepared statement without modifying the accountant's report.

c. Omission of an actual financial statement(s) that is (are) referred to in the report.

d. Financial statements departed from professional standards, for example, in the area of revenue recognition and the report was not appropriately modified.

e. Financial statements include a material balance that was not appropriate for the basis of accounting used.

f. Failure to include in the accountant's report any of the following:

1. A compilation has been performed in accordance with SSARS issued by the AICPA.
2. A compilation is limited to presenting in the form of financial statement information that is the representation of management (owners).
3. The financial statements have not been audited or reviewed and accordingly, the accountant does not express an opinion or any other form of assurance on them.
4. The paragraph representing that management has elected to omit substantially all of the required disclosures required by GAAP or OCBOA.
5. Any of the periods covered by the financial statements, and it cannot be determined from reading the financial statements.
6. Lack of independence when appropriate to do so.

g. Failure to document the understanding with the entity through the use of an engagement letter, and/or indicate a reference on each page of the financial statements that they are "restricted for management's use only" (when no report is issued) as required by the Statement on Standards for Accounting and Review Services (SSARS) No. 8 [AR section 100].

h. Failure to document any of the required descriptions and statements in the engagement letter required by SSARS No. 8 [AR section 100] (except for a reference to supplementary information, if applicable).

i. Failure to have an individual license to practice public accounting.

.80 *Question*—What ordinarily would not be considered a significant matter or comment?

.81 *Interpretation*—Matters and comments that would not ordinarily be considered significant include, but are not limited to:

a. The titles on the financial statements are not consistent with the report issued, but the basis of accounting is readily determinable.

b. The accountant's report does not cover all periods covered by the financial statements but the periods covered are identified in the body of the financial statements.

c. Failure to indicate the level of responsibility in the report taken for supplemental information that is presented with the financial statements.

d. The report indicates the basis of accounting presented, but doesn't indicate that it is an other comprehensive basis of accounting.

e. Failure to refer to the accountant's report on each page of the financial statements.

f. Other minor report-dating departures.

g. Repeat peer review findings identified by the reviewer on matters not considered significant where the recommendation is different or more comprehensive than on the prior peer review.

[Issue Date: January, 2004.]

10. Peer Review Material Retention Policies

.82 *Question*—What period of time should peer review materials be retained?

.83 *Interpretation*—Peer review materials prepared during system, engagement and report reviews, with the exception of those described in paragraphs .84, .85 and .86 below, should be retained by the administering entity or the entity that formed the review team until 90 days after the peer review is completed (see Interpretation No. 8 [paragraph .73]). The administering entity's peer review committee or the AICPA Peer Review Board (Board) may indicate that any or all materials should be retained for a longer period of time, because, for example, the review has been selected for oversight. All peer review materials are subject to oversight or review by the administering entity, the Board, or other bodies the Board may designate, including their staff. All peer review materials prepared by the administering entities are subject to oversight by the Board.

.84 Administering entities should retain the following materials until the firm's subsequent peer review has been completed:

a. Peer review report

b. Letter of comments and the firm's response thereto, if applicable

c. Letter notifying the firm that its peer review has been accepted

d. Letter signed by the firm indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions, if applicable

e. Letter notifying the firm that certain required actions have been completed, if applicable

f. Settlement agreements and letter of required corrective actions received by the administering entity from the AICPA Professional Ethics Division related to individual members performance on accounting, auditing or attestation engagements

.85 Administering entities may also retain the following administrative materials until the firm's subsequent peer review has been completed:

a. Engagement letters

b. Scheduling information

c. Review team appointment acceptance letters

d. Due date extension and year-end change requests and approvals

.86 If a firm has been enrolled in an Institute-approved practice-monitoring program, but has not undergone a peer review in the last three years and six months since its last peer review because the firm has not performed engagements and issued reports requiring it to have a peer review, the materials in paragraph .84 should still be retained. The administering entity may also choose to retain the administrative materials in paragraph .85. The materials for a firm that has not been enrolled in an Institute-approved practice-monitoring program for the last consecutive three years and six months are not required to be retained.

[Issue Date: January, 2004.]

11. Resignations From and Reenrollment to the AICPA Peer Review Program

.87 *Question*—Under what conditions may a firm resign from the Program?

.88 *Interpretation*—A firm not in the course of a peer review may resign from the Program by submitting a letter of resignation to the Board. However, once a peer review commences a firm will not be able to resign from the Program except as stated in paragraph .89 below. A peer review commences when the review team begins field work on a system review or begins the review of engagements on engagement and report reviews. The submission by the firm of a resignation from the Program during the course of its peer review is considered a failure to cooperate with the administering entity and may lead to the termination of the firm's enrollment in the Program by a hearing panel of the Board.

.89 *Interpretation*—A firm will be allowed to resign during the course of a peer review when the firm submits a letter waiving its right to a hearing and agrees to allow the AICPA to publish, in such form an manner as the AICPA Council may prescribe, the fact the firm has resigned from the Program. However, if (*a*) the firm has been notified of the reviewer's or administering entity's intent to issue or require a modified or adverse report or a report review with significant comments or (*b*) the reviewer or administering entity have knowledge of the discovery of an engagement that was not conducted in accordance with professional standards on which the firm must take, or would likely be required to take, action in accordance with professional standards, then the firm will only be allowed to resign when the firm waives its right to a hearing and agrees to allow the AICPA to publish in such form and manner as the AICPA Council may prescribe the fact that the firm has resigned from the Program and that the situation in *a* or *b* above existed.

.90 *Interpretation*—A firm that has been terminated from the Program may reenroll in the Program once it completes the delinquent action which caused the firm to be terminated. The administering entity and the Board make the determination of whether the action is satisfactorily completed. If the firm is past its next peer review due date, the firm will be required to complete its subsequent peer review within 90 days of reenrolling.

[Issue Date: January, 2004.]

12. Other Enrollment Requirements

.91 *Question*—What are some of the other enrollment requirements that firms need to meet to be eligible for enrollment (or continued enrollment) in the AICPA Peer Review Program (Program) such as those pertaining to firms that are required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB)?

.92 *Interpretation*—Firms that are *required* to be registered with and inspected by the Public Company Accounting Oversight Board are not eligible to enroll in the Program. Such firms must enroll in the Center for Public Company Audit Firms Peer Review Program (the Institute's other approved practice-monitoring program).

[Issue Date: January, 2004.]

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