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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA Professional Standards

Volume 2

Accounting and Review Services

Code of Professional Conduct

Bylaws

Consulting Services

Quality Control

Peer Review

Tax Services

Personal Financial Planning

Continuing Professional Education

As of June 1, 2006

PR Section

PEER REVIEW

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PR Section

STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

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PR Section 100**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 individual are within the scope of the AICPA's practice-monitoring Standards and the firm or 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*.)

Firms have peer reviews because of the public interest in the quality of the accounting, auditing and attestation services provided by public accounting firms. In addition, firms believe peer reviews contribute to the quality and effectiveness of their practices.

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 AICPA Bylaws, 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, 2005, for firms (and individuals) enrolled in the AICPA Peer Review Program. Early implementation is not allowed. 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 the 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 and the effective dates of the Interpretations, issued by the AICPA Peer Review Board that might affect the application of these Standards.

Reviews of firms enrolled in the CPCAF Peer Review Program are carried out under the Standards issued by the CPCAF Peer Review Committee.

Effective for peer reviews commencing on or after May 1, 2006.

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 (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 enrolled in the Program have the responsibility to—

- a. Establish and maintain appropriate quality control policies and procedures, and comply with them to ensure the quality of their practices. Statement on Quality Control Standards (SQCS) No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (AICPA, *Professional Standards*, vol. 2, QC sec. 20), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice.
- b. Perform accounting and auditing engagements in accordance with professional standards by competent professionals.
- c. Engage a peer reviewer to perform a peer review in accordance with these Standards, in a timely manner.
- d. Have independent peer reviews² of their accounting and auditing practices. All firms that an AICPA member is associated with should undergo a peer review if the services performed and reports issued by the firm require a peer review.
- e. 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.
- f. Provide written representations to the peer reviewer indicating that the firm (a) is not aware of any situations where it or its personnel has not complied with state board(s) of accountancy or other regulatory bodies rules and regulations, (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) or has notified the peer reviewer of any such situations, (b) has made available to the reviewer communications as stipulated in paragraph .50, (c) has provided the reviewer with a list of all client engagements with periods ending during the year under review and (d) has provided the reviewer with any other information requested by the reviewer. For attestation engagements, including financial forecasts or projections, the selection for review are those with report dates during the year under review. (See Appendix B [paragraph .134].)
- g. Take remedial, corrective actions as needed.
- h. Understand the AICPA Peer Review Board's (Board) guidance on resignations from the Program issued by Interpretation(s).

¹ See Peer Review Standards Interpretations.

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

.03 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).

.04 The objectives of the 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.⁴ 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. Firms that do not provide any of the services listed in paragraph .03 are not reviewed. System reviews are performed at the reviewed firm's office, however, the Board issued guidance when system reviews may be performed at a location other than the reviewed firm's office (see Interpretations). Engagement and report reviews are normally performed at a location other than the reviewed firm's office.

.05 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, failure to correct material deficiencies or when a firm is found to be so seriously deficient in its performance, that education and remedial, corrective actions are not adequate.

General Considerations

Enrollment Requirements

.06 Firms (and individuals) enrolled or seeking enrollment in the Program should comply with Council resolutions (AICPA, *Professional Standards*, vol. 2, ET Appendix B). In addition, for firm's enrolled, at least one of its partners must be a member of the AICPA.⁵

.07 See Interpretations for other enrollment criteria, such as those firms that are required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB).

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.

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

Timing of Reviews

.08 A firm's due date for its initial peer review is eighteen months from the date it enrolled in the Program or should have enrolled, whichever date is earlier.

.09 If a firm is enrolled in the Program, but does not perform engagements requiring it to undergo a peer review (see paragraph .03), it is not required to undergo a peer review. However, when a firm performs its first engagement requiring a peer review, the firm's due date will be eighteen months from the year-end of that engagement (eighteen months from the report date if it is an attestation engagement including financial forecasts and projections).

.10 A firm's subsequent peer review ordinarily has a due date of three years and six months from the year-end of the previous review.

.11 When a firm, subsequent to the year-end of its report or engagement review, performs an engagement under the SASs, Government Auditing Standards or examinations of prospective financial statements under the SSAEs that would have required the firm to have a system review, the firm should (a) immediately notify the administering entity and (b) undergo a system review. The system review will be due 18 months from the year-end of the engagement (for financial forecasts and projections 18 months from the date of report) requiring a system review or by the firm's next scheduled due date, whichever is earlier. Firms that fail to inform the administering entity of the performance of such an engagement will be required to participate in a system review that includes such engagement with a peer review year-end that covers the engagement. A firm's subsequent peer review will be due three years and six months from this peer review year-end (see paragraph .04).

.12 The due date for a peer review is the date by which the peer review report, and if applicable, letter of comments, letter of response and the peer reviewer's materials are to be submitted to the administering entity (see paragraph .22).

.13 Peer reviews must cover a current period of one year to be mutually agreed upon by the reviewed firm and the reviewing firm. Ordinarily, the review should be conducted within three to five months following the end of the year to be reviewed.

.14 A firm is expected to maintain the same year-end on subsequent reviews, (which is three years from the previous year-end). Nevertheless, circumstances may arise that require the firm to change its peer review year-end. In such situations, a firm may do so only with prior approval of the administering entity.

.15 It is the responsibility of the firm to ensure that any changes in the year-end or review due date approved by the administering entity is recognized by any other organizations requiring it to have a peer review. This includes but is not limited to state boards of accountancy, the GAO and other regulators.

.16 If a firm resigns from the Program and subsequently rejoins the Program, the firm's due date is the later of the due date originally assigned or ninety days after rejoining the Program.

.17 If a firm's most recent peer review was under the auspices of the SEC Practice Section (SECPS) or Center for Public Company Audit Firms Peer Review Program (CPCAF PRP), it may defer the due date for its next review until three years and six months from the year-end of that peer review.

Confidentiality

.18 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" (AICPA, *Professional Standards*, vol. 2, ET sec. 301). Except for the information in paragraph .111, information concerning the reviewed firm or any of its clients or personnel that is obtained as a consequence of the review is confidential. Such information should not be disclosed by review team members or administering entities 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.

Independence, Integrity, and Objectivity

.19 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 (see Interpretations). In addition, the review team should perform all peer review responsibilities with integrity and maintain objectivity in discharging those responsibilities.

.20 *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" (AICPA, *Professional Standards*, vol. 2, ET secs. 54 and 55), should be considered in making independence judgments. In that connection, the specific requirements set forth in Appendix A, "Independence Requirements" [paragraph .133], 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.

Due Professional Care

.21 Due professional care, as addressed by the AICPA Code of Professional Conduct in Article V, "Due Care" (AICPA, *Professional Standards*, vol. 2, ET sec. 56), should be exercised in 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

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

.23 Entities requesting to administer the Program are required to complete and sign a Plan of Administration (Plan) annually whereby the entity agrees to administer the Program in compliance with these Standards and other

guidance established by the Board. Upon receipt of the Plans by the AICPA, including jurisdictions not requesting to administer the Program for their state, the Board annually approves the administering entities for all of the jurisdictions covered by the Program.

.24 This imposes an obligation on the administering entities to ensure that its staff, technical reviewers, committee members, and all others involved in the administration of the Program comply with these Standards and other guidance established by the Board. Administering entities must submit a request to the Board for approval prior to deviating from these Standards or other guidance. Administering entities shall also cooperate with the Board in all matters related to the administration of the Program. Failure to comply with these Standards and other guidance may result in the revocation of the entity's Plan by the Board.

.25 If an administering entity refuses to cooperate, or is found to be deficient in administering the Program in compliance with these Standards or with other guidance, the Board may decide pursuant to due process procedures whether the administering entity's Plan should be revoked or whether some other action should be taken.

Organization of the Review Team

.26 A review team may be formed by a firm engaged by the firm under review (a firm-on-firm review), or an association of CPA firms authorized by the Board to assist its members by forming review teams to carry out peer reviews (an association review). For engagement and report reviews, review teams may be formed by the administering entity if they choose to appoint such teams (hereinafter, committee-appointed review team, also known as a CART review).

.27 A system review team is comprised of one or more individuals, depending upon the size and nature of the reviewed firm's practice. A review team should be comprised of reviewers with appropriate levels of expertise and experience to perform the review. One member of the system 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 administering entity, and preparing the report and, if applicable, the letter of comments on the review.⁶ 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 administering entity prior to the commencement of the review.

.28 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 they are reviewing. See paragraphs .32–.36 for a description of the qualifications an individual should possess to serve on a review team.

.29 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 administering entity prior to the commencement of the peer review.

⁶ 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 administering entity.

Review Team Materials

.30 The review team must complete all relevant peer review materials to provide evidence of the work performed and the conclusions reached on system, engagement and report reviews. Peer review materials, including engagement review checklists, should not name or otherwise specifically identify the reviewed firm's clients.

.31 All peer review documents, reports, letters and other materials prepared during system, engagement and report reviews should be retained in accordance with the Interpretation related to peer review material retention policies.

Qualifications for Service as a Reviewer

System, Engagement, and Report Reviews

.32 Performing and reporting on a peer review requires the exercise of professional judgment by peers. (See paragraphs .121 through .127 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—

- 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 Program or the CPCAF PRP. The firm that the member is associated with should have received an unmodified report on the review of its system of quality control or an unmodified report on its engagement review for its most recent peer review that was accepted within the last three years and six months.⁷ If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received an unmodified report on the review of its system of quality control or an unmodified report on its engagement review for its most recent peer review that was accepted within the last three years and six months.
- b. Possess current knowledge of applicable professional standards, including quality control and peer review 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.⁸
- 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 Program or in the CPCAF PRP) as a partner of the firm or as a manager or person

⁷ If a firm's most recent review was a report review, then the firm's members are not eligible to perform peer reviews.

⁸ 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.

with equivalent supervisory responsibilities.^{9,10} 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.

- e. Have completed a peer review training course or courses that meet requirements established by the Board, when the function of the reviewer goes beyond reviewing engagements (see Interpretations).

.33 An individual who was previously a team captain or engagement/report reviewer qualified to perform peer reviews that starts, or becomes associated with, a newly formed firm (a firm which has not had a peer review) may serve as a system review team captain, or as an engagement or report reviewer during a transition period. The transition period begins with the earlier of the dates of disassociation from the previous firm or when the individual starts or becomes associated with a new firm. The transition period ends with the earlier of eighteen months from the beginning date or the peer review due date of the new firm. In no circumstances will the transition period exceed eighteen months. The previous firm should have received an unmodified report on its most recently accepted peer review, and the individual should meet all of the other qualifications for service as a system review team captain, or as an engagement or report reviewer.

.34 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 administering entity has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.

.35 An individual may not serve as a peer reviewer if his or her ability to practice public accounting has been limited or restricted in any way by 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, or one or more of its offices, then none of the individuals associated with the firm, or the portion thereof, may serve as reviewers. Reviewers should immediately notify the administering entity of any such limitations or restrictions. In addition, reviewers should immediately notify the administering entity of communications relating to allegations or investigations (including litigation) in the conduct of accounting, audit or attestation engagements performed by the reviewer.

⁹ The 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.

¹⁰ A manager or person with equivalent supervisory responsibilities is a professional employee of the firm who has either a continuing responsibility for the overall planning and supervision of engagements for specified clients or authority to determine that an engagement is complete subject to final partner approval if required.

.36 If required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas 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.

System Review Team Captain

.37 In addition to adhering to the general requirements for a reviewer, an individual serving as a team captain on a system review should be a partner of an enrolled firm that has received an unmodified report on a review of its system of quality control for its accounting and auditing practice for its most recent peer review that was accepted within the last three years and six months. If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received an unmodified report on a review of its system of quality control for its accounting and auditing practice for its most recent peer review that was accepted within the last three years and six months.

Performing System Reviews

Objectives

.38 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* (AICPA, *Professional Standards*, vol. 2, QC sec. 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.

Peer Review Risk Factors

.39 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 lack of compliance with that system, or a combination thereof.
- 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 a combination thereof.
- c. Reaches an inappropriate decision about the matters to be included in, or excluded from, the report or letter of comments, or about whether to issue a letter of comments.

.40 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 in all material

respects, that the reviewed firm's system of quality control will not prevent such failure, or both.^{11,12}

- 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 in all material respects, constitute conditions whereby there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements in all material respects.

.41 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 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

.42 The objectives of a system review are discussed in paragraph .38. A system review is designed to test a reasonable cross-section of the firm's engagements with a focus on high-risk engagements in addition to significant risk areas where the possibility exists of engagements being performed and/or reported on that are not in accordance with professional standards in all material respects. An engagement is ordinarily considered substandard when deficiencies, individually or in aggregate exist, that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards. A system review is not designed to test every engagement or compliance with every professional standard and every detailed component of the firm's system of quality control.

.43 A system review should include the following procedures:

- a. Plan the review, as follows:
 1. Inquire of the firm the matters to be addressed in the written representation (see paragraph .02f).
 2. Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the review (see paragraph .53).
 3. 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 .54).

¹¹ *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.

¹² *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.

4. Assess the peer review risk (see paragraphs .55 and .56).
 5. 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 .57 through .63).
- b. Perform the review, as follows:
1. Review the firm's design and compliance with its system of quality control. The review should cover all organizational or functional levels within the firm (see paragraph .54).
 2. Review significant risk areas on selected engagements, including the relevant accounting, audit and attestation documentation and reporting (see paragraphs .64 through .69).
 3. Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary (see paragraph .68).
 4. Obtain the written representation from the reviewed firm (see paragraph .02f).
 5. Conduct an exit conference with senior members of the reviewed firm to discuss the review team's comments, deficiencies and recommendations and the type of report it will issue (see paragraph .70).
 6. Prepare a written report on the results of the review and, if applicable, a letter of comments (see paragraphs .87 through .97).
 7. Review and provide comments to the reviewed firm on its response to the report and letter of comments, if any (see paragraph .98).

.44 The Board has authorized the issuance of materials 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 materials and checklists in a professional manner may create the presumption that the review has not been performed in conformity with these Standards. The Board emphasizes that failing to select required engagements as described in the *Standards* or Interpretations may create the presumption that the review has not been performed in conformity with the *Standards*. In addition, any other engagement selection guidelines used that are not consistent with those in the *Standards*, Interpretations or guidance should not be incorporated in the engagement selection process or this may also create the presumption that the review has not been performed in conformity with the *Standards*. Such a review cannot be accepted as meeting the requirements of the Program. System reviews are subject to oversight by the AICPA and the administering entity.

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

Scope of the Review

.46 The review should cover the professional aspects of a firm's accounting and auditing practice as defined in paragraph .03. Engagements subject to selection for review ordinarily should be those with periods ending during the year under review. For attestation engagements, including financial forecasts

or projections, the selection for review ordinarily should be those with report dates during the year under review. If the current year's engagement has not been completed and issued, 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 and issued, the review team should consider, based on its assessment of peer review risk, whether the more recently completed and issued engagement should be reviewed instead. Review team members should not have contact with or access to any client of the reviewed firm in connection with the peer review.

.47 When a reviewed firm has had an acquisition of another practice or a portion thereof, or a divestment of a significant portion of its practice, during or subsequent to its peer review year, the reviewer, the reviewed firm, or both should consult with the AICPA staff prior to the commencement of the review to consider the appropriate scope of the review or other actions that should be taken.

.48 The team captain should obtain the prior peer review report and, if applicable, the letter of comments and the response thereto, and the letter accepting those documents from the reviewed firm. 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.

.49 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 where a reasonable cross section of the firm's practice is covered and 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 may 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 administering entity. An illustration of a modified report for a scope limitation on a system review is included in Appendix J [paragraph .142].

.50 The reviewed firm should make available to the reviewer communications relating to allegations or investigations of deficiencies (including litigation) in the conduct of an accounting, audit or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its professional personnel, within the three years preceding the firm's current peer review year-end and through the date of the exit conference. In addition, the reviewer may inquire if there are any other issues that may affect the firm's practice.

.51 A reviewed firm may have legitimate reasons for excluding an engagement from the scope of the peer review, such as the engagement is subject to litigation. In these situations, the reviewed firm should submit a written statement to the administering entity, prior to the commencement of the review,

indicating *a*) it plans to exclude an engagement(s) from the peer review selection process, *b*) the reasons for the exclusion and *c*) it is requesting a waiver from a scope limitation in the peer review report. The administering entity should satisfy itself as to the reasonableness of the explanation, before agreeing that a scope limitation is not required.

.52 The review of engagements should usually be directed toward the accounting and auditing work performed by the practice office visited, including the work performed on those engagements by other practice offices of the reviewed firm or other public accounting firms. For those situations in which the practice office being visited performed accounting and auditing work for another practice office, the review team may limit its review to portions of the engagements performed by the practice office being visited, but should evaluate the appropriateness of the instructions issued by the other practice office and the adequacy of the procedures followed to conform with professional standards.

Understanding the Firm's Accounting and Auditing Practice and System of Quality Control

.53 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.

.54 SQCS No. 2 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. It also states that the nature, extent, and formality of a firm's quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm's size, the number of its offices, the degree of operating autonomy allowed 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. 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 and how the policies and procedures identify and mitigate risk of material non-compliance with professional standards. This knowledge is ordinarily obtained through such procedures as inquiries of appropriate management and supervisory personnel and reviewing the firm's responses to a questionnaire developed by the Board.

Assessing Peer Review Risk

.55 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).

.56 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. 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.

Extent of Compliance Tests

.57 Based on its understanding of the reviewed firm's accounting and auditing practice system of quality control, and its assessment of peer review risk, the review team should consider what modifications to the materials and checklists issued by the Board are appropriate. The team captain should then develop a general plan for conducting 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 in all material respects. 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 significant risk areas (see paragraph .65) on selected engagements, including accounting and auditing documentation, 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

.58 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
- f. Extent of non-audit services to audit clients
- g. Significant clients' fees to a practice office(s) and a partner(s)

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

Selection of Engagements

.59 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.

.60 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, extent of non-audit services to audit clients, significant clients' fees to a practice office(s) and a partner(s) and initial engagements.

.61 The initial selection of engagements to be reviewed should be provided to the reviewed firm, but no earlier than two weeks before the commencement of the peer review. This should provide ample time to enable the firm (or office) to assemble the required client information and engagement documentation before the review team commences the review. However, at least one engagement from the initial selection to be reviewed should be provided to the firm once the review commences and not provided to the firm in advance. This engagement should be the firm's highest level of service and should not increase the scope of the review.

.62 The process of engagement selection, except as noted in paragraph .63, 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 should consult with the administering entity about the selection of engagements for review. In such circumstances, the team captain should carefully consider whether—

- a. Significant risk areas have appropriate coverage (see paragraph .65).
- 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.

.63 See Interpretation(s) and guidance in connection with specific types and/or number of engagements that must be selected on a system review as well as specific audit areas.

Extent of the Review of Engagements

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

.65 Audit engagements have areas where risk may be inherently significant such as, but not limited to fraud considerations, use of estimates, emerging issue matters and assertions which are difficult to audit. The review team's procedures should include determining whether the reviewed firm has appropriately:

- a. Identified the significant risk areas on each audit engagement selected for the peer review,
- b. Performed the necessary audit procedures related to the identified significant risk areas, and
- c. Documented the auditing procedures performed in these significant risk areas.

.66 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, with an other comprehensive basis of accounting (OCBOA).
- b. The firm did not have a reasonable basis under applicable professional standards to issue the report.
- c. The report is not presented in accordance with professional standards in all material respects.
- d. The documentation on the engagement did not support the report issued.
- e. The firm did not comply with its quality control policies and procedures in all material respects.

.67 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 on a Matter for Further Consideration (MFC) 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" (AICPA, *Professional Standards*, vol. 1, AU sec. 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* (AICPA, *Professional Standards*, vol. 1, AU sec. 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 on the MFC prepared by the reviewer. Reviewers or administering entities should not instruct reviewed firms to recall accounting or auditing reports, to have them reissued, or to correct previously issued engagements as those are decisions for the firm to make. However, the firm's actions may impact other corrective actions the administering entity's peer review committee may impose.

.68 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 administering entity. 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.

.69 In evaluating the reviewed firm's response(s) to the MFC(s) or other questions raised by the reviewer, 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. Reviewers and reviewed firms should understand that professional judgement often becomes a part of the process and each party has the right to challenge each other on such matters. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances. The reviewed firm or reviewer should be aware that they may request the administering entity's peer review committee to resolve the disagreement. If the administering entity's full peer review committee is unable to resolve the disagreement, they may refer unresolved matters to the Board for a final determination. Only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists, or whether the reviewed firm or review team are not cooperating, in order to refer the matter to the Board.

Exit Conference

.70 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. The team captain should be physically present at the exit conference, unless the system review is performed at a location other than the practitioner's office. The review team should also communicate to senior members of the reviewed firm that the firm may be required to participate in certain corrective actions to demonstrate that they have corrected the deficiencies and/or comments noted during a peer review. The exit conference may also be attended by representatives of the administering entity, the Board, AICPA staff, or other Board 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,

including the deficiencies, comments and recommendations that will be included in the report and 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 report or letter of comments. The exit conference is also the appropriate vehicle for providing suggestions to the firm that do not affect the report or letter of comments.

Performing Engagement Reviews

Objectives

.71 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, review and attestation engagements submitted for review, conform with the requirements of professional standards in all material respects; and
- b. The reviewed firm's documentation for each engagement submitted for review conforms with the requirements of professional standards 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, Government Auditing Standards, 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

.72 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 .08 through .17). Engagements subject to review ordinarily should be those with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the selection for review ordinarily should be those engagements with report dates during the year under review. The reviewed firm should provide summarized information showing the number of its compilation, review and attestation engagements, classified into major industry categories. That information should be provided for each partner, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements. On the basis of that information, the reviewer or the administering entity 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, or individual of the firm if not a partner, 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, or individual if not a partner, responsible for the issuance of the reports listed in item *a* above 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.

.73 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 professional standards for each of these engagements.

.74 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 and documentation. In addition, an engagement review includes obtaining the required representations submitted by the firm (see paragraph .02*f*), the firm's prior peer review report, and if applicable, letter of comments and letter of response.

.75 An engagement review does not include a review of the documentation prepared on the engagements submitted for review (other than the documentation referred to in paragraphs .72 through .74), 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 financial statements or information in the accountant's reports and the documentation submitted for review did not conform with the requirements of professional standards in all material respects.

.76 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. The reviewer will contact the firm, before issuing the final peer review report, to resolve questions raised during the review.

.77 The reviewer performing an engagement review should document the work performed using the materials and checklists specified in guidance issued by the Board for that purpose. Failure to complete all relevant materials 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 may not be accepted as meeting the requirements of the Program. Engagement reviews are subject to oversight by the AICPA and the administering entity.

.78 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

Objective

.79 The objective of a report review is to enable the reviewed firm to enhance 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. The reviewer provides comments and identifies those considered significant (see Interpretations). Firms required to have a report review may elect to have a system or engagement review.

Basic Requirements

.80 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 .08 through .17) and an engagement review. Engagements subject to review ordinarily should be those with periods ending during the year under review. The reviewed firm shall provide summarized information showing the number of compilation engagements under SSARS in which the firm has compiled financial statements that omit substantially all disclosures, classified into major industry categories. That information should be provided for each partner or individual if not a partner of the firm who is responsible for the issuance of reports on such engagements. On the basis of that information, the reviewer or the administering entity 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 or individual if not a 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.

.81 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.

.82 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 on the engagements submitted for review. In addition, a report review includes obtaining the required representations submitted by the firm (see paragraph .02f) and the firm's prior peer review report, and if applicable, letter of comments and letter of response.

.83 A report review does not include a review of the documentation (except as noted in paragraphs .81 and .82 and Interpretation(s) issued by the Board regarding compilations for which engagement letters are issued instead of reports) 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.

.84 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 final peer review report, to resolve questions raised in the review and to discuss comments and recommendations to be included in the report.

.85 The reviewer performing a report review should document the work performed using the materials and checklists specified in guidance issued by the Board for that purpose. Failure to complete all relevant materials 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 may not be accepted as meeting the requirements of the Peer Review Program. Report reviews are subject to oversight by the AICPA and the administering entity.

.86 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

.87 On a system review, the team captain should furnish the reviewed firm with a written report and, if applicable, 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 letterhead of the team captain's firm performing the review. The report on a system review ordinarily should be dated as of the date of the exit conference.

.88 On a system review, the team captain or, where provided by its plan of administration, an authorized association of CPA firms should notify the administering entity that the review has been performed and should submit to that administering entity 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 applicable, and the documentation specified in the materials and checklists issued by the Board.

.89 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 administering entity 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 administering entity, the reviewed firm should submit the response to the team captain for review and comment.

Reports on System Reviews

.90 The written report on a system review should:

- a. Indicate the scope of the review, including any limitations thereon.
- b. Describe the system of quality control.
- c. State that the firm is responsible for designing a system of quality control and complying with it and conforming with professional standards.

- d. State that the reviewer's responsibility is to express an opinion on the design of and compliance with that system based on the review.
- e. State that the review was conducted in accordance with the standards established by the Peer Review Board of the AICPA.
- f. Describe the peer review process for system reviews, including the process for engagement selection. If the firm performs any engagements required to be selected by the Board in the Interpretations, the engagement(s) selected for review should be identified in the report.
- g. Describe the limitations of a system of quality control.
- h. 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.
- i. Refer to the letter of comments if a letter of comments is issued along with an unmodified or modified report.
- j. State if applicable, the reason(s) for a modified or adverse report. The reasons should include a systemically written description of the deficiencies and the reviewing firm's recommendations.
- k. Identify, for any deficiencies included in the report, any that were also made in the report or letter of comments issued on the firm's previous peer review.
- l. Identify, for any deficiencies included in the report, those engagements that are required to be selected by the Board in the Interpretations.
- m. Identify, if a modified or adverse report, substandard engagements (see paragraph .42) as such by its industry and level of service.
- n. Identify for scope limitations the industry and level of service for the engagement(s) excluded from potential selection in the peer review.
- o. Include deficiencies and recommendations that are clearly understandable not only to the reviewed firm but to the general public.

.91 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 C, "Considerations Governing the Type of Report Issued on a System Review" [paragraph .135]. The standard form for an unmodified report is illustrated in Appendix D, "Illustration of an Unmodified Report on a System Review" [paragraph .136]. Illustrations of modified and adverse reports are presented in Appendices G, J and M, "Illustration of a Modified Report on a System Review" [paragraph .139], "Illustration of a Modified Report for a Scope Limitation on a System Review" [paragraph .142], and "Illustration of an Adverse Report on a System Review" [paragraph .145], respectively.

Letters of Comments on System Reviews

.92 A letter of comments should only be issued in connection with a system review 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 in all material respects, but were not of such significance to cause the report to be modified or adverse. The letter should also include comments on such matters even if they did not result in engagement deficiencies on the engagements reviewed, such as when one or more of the functional elements of a firm's system of quality control could be more suitably designed for a particular firm (see paragraph .54).

.93 The letter of comments should provide reasonably detailed systematically written comments and recommendations so that the administering entity can evaluate whether the actions taken or planned, including timing of the planned actions, by the reviewed firm appear appropriate in the circumstances. A letter of comments should not be prepared when a modified report is issued where all of the deficiencies are matters causing the report to be modified or when an adverse report is issued, as all deficiencies and recommendations in these cases should be contained in the report.

.94 The letter of comments should be addressed, dated, and signed in the same manner as the report on the system review, and should:

- a. Include a reference to the report that was modified as described therein, when applicable.
- b. Include a statement that the report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.
- c. Include a statement that the matters included in the letter of comments were not considered to be of such significance to affect the opinion expressed in that report.
- d. Include systemically written comments and recommendations that are clearly understandable not only to the reviewed firm but to the general public.
- e. Identify, for any comments, any that were also made in the report or letter of comments issued on the firm's previous peer review.
- f. Identify, for any comments, those engagements that are required to be selected by the Board in the Interpretations or guidance.

.95 Although an isolated deficiency or instance of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report or 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 of whether to include a comment in the letter of comments related to the isolated deficiency or instance of noncompliance. Isolated matters should be identified as such if included in the letter of comments.

.96 If any of the matters included in the letter of comments were included in the report or 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.

.97 The letter of comments on a system review should be prepared in accordance with Appendices E, H and K, "Illustration of a Letter of Comments to an Unmodified Report on a System Review" [paragraph .137], "Illustration of a Letter of Comments to a Modified Report on a System Review" [paragraph .140], "Illustration of a Letter of Comments to a Modified Report for a Scope Limitation on a System Review" [paragraph .143], respectively.

Letters of Response on System Reviews

.98 On a system review, the reviewed firm should respond in writing to the deficiencies and comments and related recommendations identified by the review team in the report, and letter of comments, if applicable. The response should be addressed to the administering entity's peer review committee and should describe the actions taken or planned (including timing of planned actions) by the reviewed firm with respect to each matter in the report and letter of comments, if applicable. Reviewers and reviewed firms should understand that professional judgment often becomes a part of the process and each party has the right to challenge each other on such matters. If, after a discussion with the team captain, the reviewed firm disagrees with one or more of the deficiencies or comments, the reviewed firm should contact the administering entity for assistance in the matter. If at this point the reviewed firm still disagrees with one or more of the deficiencies or comments, its response should describe the reasons for such disagreement. Although not required to respond to a scope limitation as described in the report, the firm may identify the reasons for the scope limitation. The reviewed firm should submit the response for review and comment to the team captain prior to submitting the response to the administering entity in accordance with Appendices F, I, L and N, "Illustration of a Response by a Reviewed Firm to an Unmodified Report With a Letter of Comments on a System Review" [paragraph .138], "Illustration of a Response by a Reviewed Firm to a Modified Report With a Letter of Comments on a System Review" [paragraph .141], "Illustration of a Response by a Reviewed Firm to a Modified Report for a Scope Limitation With a Letter of Comments on a System Review" [paragraph .144], "Illustration of a Response by a Reviewed Firm to an Adverse Report on a System Review" [paragraph .146], respectively.

Reporting on Engagement Reviews

General

.99 On an engagement review, the reviewer should furnish the reviewed firm with a written report and, if applicable, a letter of comments within thirty days of the review of engagements 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 letterhead of the reviewer's firm performing the review. All other reports are to be issued on the letterhead of the administering entity. The report on an engagement review ordinarily should be dated as of the date of the completion of the peer review procedures.

.100 On an engagement review, the reviewer or, where provided by its plan of administration, an authorized association of CPA firms should notify the administering entity that the review has been performed and should submit to the administering entity within thirty days of the review of engagements or by the firm's peer review due date, whichever date is earlier, a copy of the report and letter of comments, if applicable, and the documentation specified in the materials and checklists issued by the Board.

.101 On an engagement review, the reviewed firm should submit a copy of the report, the letter of comments, if applicable, and its response to all matters discussed in the report and letter of comments, if applicable, to the administering entity within thirty days of the date it received the report and letter of comments from the reviewer or by the firm's peer review due date, whichever date is earlier. Prior to submitting the response to the administering entity, the reviewed firm should submit the response to the reviewer for review and comment.

Reports on Engagement Reviews

.102 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 financial statements or information and the accountant's reports and the documentation submitted for review did not conform with the requirements of professional standards 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 engagements submitted for review by the firm did not conform with the requirements of professional standards in all material respects.
- d.* Refer to the letter of comments if a letter of comments is issued along with an unmodified or modified report.
- e.* If applicable, the reason(s) for a modified or adverse report. The reasons should include a description of the deficiencies and the reviewing firm's recommendations.
- f.* Identify, for any deficiencies, any that were also made in the report or letter of comments issued on the firm's previous review.
- g.* Identify substandard engagements (see Appendix O [paragraph .147]) as such by its industry and level of service.
- h.* Include deficiencies and recommendations that should be clearly understandable not only to the reviewed firm but to the general public.

.103 In deciding on the type of report to be issued, the reviewer should be guided by the considerations in Appendix O, "Considerations Governing the Type of Report Issued on an Engagement Review" [paragraph .147]. For illustrations, see Appendices P, S and V, "Illustration of an Unmodified Report on an Engagement Review" [paragraph .148], "Illustration of a Modified Report on an Engagement Review" [paragraph .151], and "Illustration of an Adverse Report on an Engagement Review" [paragraph .154], respectively.

Letters of Comments on Engagement Reviews

.104 A letter of comments should only be issued in connection with an engagement review 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 comments and recommendations and should identify any comments on the current review that were also noted on the firm's previous review so that the administering entity can evaluate whether the actions taken or planned (including timing of planned actions) by the reviewed firm appear appropriate in the circumstances. A letter of comments should not be prepared when a modified report is issued where all of the deficiencies are matters causing the report to be modified or when an adverse report is issued, as all deficiencies and recommendations in these cases should be contained in the report.

.105 The letter of comments should be addressed, dated, and signed in the same manner as the report on the engagement review, and should:

- a. Include a reference to the report that was modified as described therein, if applicable.
- b. Include a statement that these comments described below were not considered to be of sufficient significance to affect the limited assurance expressed in that report, which should be read in conjunction with this letter.
- c. Identify, for any comments, any that were also made in the report or letter of comments issued on the firm's previous review.
- d. Include comments and recommendations that are clearly understandable not only to the reviewed firm but to the general public.

.106 The letter of comments on an engagement review should be prepared in accordance with Appendices Q and T, "Illustration of a Letter of Comments to an Unmodified Report on an Engagement Review" [paragraph .149], and "Illustration of a Letter of Comments to a Modified Report on an Engagement Review" [paragraph .152], respectively.

Letters of Response on Engagement Reviews

.107 The reviewed firm should respond in writing to the deficiencies and comments and related recommendations identified by the review team in the report and letter of comments, if applicable. The response should be addressed to the administering entity's peer review committee and should describe the actions taken or planned (including timing of planned actions) by the reviewed firm with respect to each matter in the report and letter of comments, if applicable. Reviewers and reviewed firms should understand that professional judgement often becomes a part of the process and each party has the right to challenge each other on such matters. If, after a discussion with the peer reviewer, the reviewed firm disagrees with one or more of the deficiencies or comments, the reviewed firm should contact the administering entity for assistance in the matter. If the reviewed firm still disagrees with one or more of the deficiencies or 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 administering entity. An illustration of a response by a reviewed firm for an engagement review is included in Appendices R, U and W, "Illustration of a Response by a Reviewed Firm to an Unmodified Report With a Letter of Comments on an Engagement Review" [paragraph .150], "Illustration of a Response by a Reviewed Firm to a Modified Report With a Letter of Comments on an Engagement Review" [paragraph .153], and "Illustration of a Response by a Reviewed

Firm to an Adverse Report on an Engagement Review" [paragraph .155], respectively.

Reporting on Report Reviews

.108 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 and representations made by the firm (see paragraphs .81 and .82). The list should provide reasonably detailed descriptions of the comments and recommendations so that the reviewed firm can take appropriate actions under the circumstances. The comments and recommendations should be discussed and agreed upon with the firm prior to the issuance of the final written report. The recommendations in the final written report should be very specific (not a series of choices, which can be discussed previously) as to the appropriate action(s) the reviewed firm should take to correct the matters described in the comments or significant comments. The recommendation(s) should assist the firm in preventing similar deficiencies on future engagements.
- d.* Identify any comments that are significant (see Interpretations).
- e.* Identify any comments on the current review that were also noted on the firm's previous review.
- f.* Ordinarily be dated as of the date of the completion of the review procedures
- g.* 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 letterhead of the reviewer's firm performing the review. All other reports are to be issued on the letterhead of the administering entity.

.109 On a report review, the reviewer prepares a written report after discussing the comments, (including significant comments) and recommendations with the firm and submits it to the reviewed firm within thirty days of the review of engagements or by the firm's due date, whichever is earlier. In addition, the reviewer should notify the administering entity that the review has been performed and should submit to the administering entity within thirty days of the review of engagements or by the firm's peer review due date, whichever date is earlier, a copy of the report, checklists, and materials specified in guidance issued by the Board. An authorized member of the firm is then required to sign the report, whether or not there are any comments, acknowledging receipt of the report and that there are no disagreements on the comments and that the reviewed firm agrees to correct all comments by implementing the recommendations. The firm is then required to submit the copy of the report it has signed to the administering entity within thirty days of receipt of the report from the reviewer, or by the due date, whichever is earlier.

.110 The report on a report review should be prepared in accordance with Appendix X, "Illustration of a Report on a Report Review" [paragraph .156].

Acceptance of System, Engagement, and Report Reviews

.111 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 administering entity as meeting the requirements of the AICPA Peer Review Program. Neither the administering entity 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 acceptance and the period covered by the firm's most recently accepted peer review
- d. If applicable, the termination of the firm from the program

.112 A committee or report acceptance body (hereinafter, the committee or RAB) should be appointed by each participating administering entity for the purpose of considering the results of peer reviews it administers that are undertaken to meet the requirements of the Program. The activities of the committee should be carried out in accordance with administrative procedures issued by the 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.

.113 The committee's responsibilities on system and engagement reviews include:

- a. Considering whether the review has been performed in accordance with these Standards and related guidance materials.
- b. Considering whether the report, and if applicable letter of comments, and the response thereto are in accordance with these Standards and related guidance materials, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it has taken or will take in its letter of response.
- c. Determining whether 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, include but are not limited to requiring certain individuals to obtain specified kinds and specified 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 or postissuance reviews of financial statements, reports, and accounting and audit documentation to attempt to strengthen the performance of the firm's professional staff.
- d. Ensuring that all firms within their jurisdiction have timely peer reviews and keeping track of the timing of the completion of corrective actions by all firms that the committee has required to take corrective actions, including those that are overdue.

- e. Ensuring that reviews are presented to a report acceptance body in a timely manner, ordinarily within 120 days of receipt of the report, letter of comments and letter of response, if applicable from the reviewed firm.

.114 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 revisions to the report, the letter of comments, or the reviewed firm's response, thereto. 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 corrective actions, the committee should consider the nature, significance, and for system reviews, the 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.

.115 If, after consideration of the items in paragraph .113 on system and engagement reviews, the committee concludes that no corrective actions are deemed necessary, the committee should accept the report and so notify the reviewed firm. If corrective actions in addition to those described by the firm in its letter of response are deemed necessary, the firm will be required to evidence its agreement to perform these corrective action(s) in writing before the report is accepted.

.116 On report reviews, a technical review is required to be performed by the administering entity, but committee consideration is not always required. The technical reviewer¹³ 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 matters or significant comments (see Interpretations) on the report review. 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. In addition, the committee's responsibilities on all report reviews include ensuring that reviews are presented to a report acceptance body in a timely manner, ordinarily within 120 days of receipt of the report from the reviewed firm, and for report reviews that do not require committee consideration, accepted by the technical reviewer within 45 days of receipt of the report from the reviewed firm.

.117 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 .112 through .115 and from paragraphs .121 through .127 considering the reasons why the report review has been submitted to it for acceptance.

.118 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

¹³ The 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.

efforts, the administering entity may request that the matter be referred to the Board for final resolution. Only the participating administering entity's peer review committee will be responsible for determining whether a disagreement still exists in order to refer the matter to the Board. In these circumstances, the Board may consult with representatives of other AICPA committees or with appropriate AICPA staff.

.119 If a 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 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 Program should be terminated or whether some other action should be taken. A firm that receives peer reviews with recurring significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. In addition, a firm that fails to correct significant deficiencies after consecutive corrective actions requested by the committee may also be deemed as a firm refusing to cooperate.

.120 If a decision is made by the hearing panel to terminate a firm's enrollment in the Program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the hearing panel's findings. The fact that a firm's enrollment in the Program has been terminated shall be published in such form and manner as the AICPA Council may prescribe.

Evaluation of Reviewers

.121 A team captain or reviewer (hereinafter, reviewer) has a responsibility to perform a review in a timely, professional manner. This relates not only to the initial submission of the report, letter of comments, if any, and materials 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 as well as the Board and AICPA staff.

.122 In considering peer review documents for acceptance, the committee evaluates the reviewer's performance on the peer review. In addition to the committee's evaluation, the Board and AICPA staff also evaluates and tracks reviewers' performance on reviews. 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 Board or committee, depending on the particular circumstances, will consider the need to impose corrective actions on the service of the reviewer. The Board or committee may require the reviewer to comply with certain actions, such as (but not limited to) the following, in order for the reviewer to continue performing reviews:

- a. Submitting evidence of attendance at a future reviewer's training or accounting or auditing course(s)
- b. Having committee oversight on the next review(s) performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as cost of travel)
- c. Submitting all reports, letters of comments, and appropriate documentation on all outstanding peer reviews before performing another review
- d. Having preissuance review(s) of the report, letter of comments, and peer review documentation on future reviews by an individual acceptable to the committee chair or designee who has experience in performing peer reviews

.123 In situations in which one or more of such actions is imposed, the administering entity will inform the Board, and may request that the Board ratify the action(s) to be recognized by other administering entities and in the CPCAF PRP.

.124 If corrective or monitoring actions are imposed by the CPCAF Peer Review Committee, those actions will also apply to peer reviews performed by the reviewer in the Program, unless the actions are specific to the CPCAF PRP, and need not be ratified by the 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.

.125 If a reviewer refuses to cooperate with the committee or Board, fails to revise peer review documents as requested by the committee or Board, fails to correct performance deficiencies, or is found to be 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 Board that the reviewer be prohibited from performing peer reviews in the future. In such situations imposed by a committee, the Board should ratify the action(s) taken by the committee for the reviewer's name to be removed from the list of qualified reviewers. The Board may decide, with or without committee recommendation pursuant to due process procedures that it has established, to consider whether the reviewer should be prohibited from performing reviews or whether some other action should be taken.

.126 Corrective or other action(s) can only initially be appealed to the committee that imposed the action(s). For actions previously appealed to the committee or imposed or ratified by the Board, if the reviewer disagrees with the corrective action(s), he or she may appeal the decision by writing the Board, and explaining why he or she believes that the action(s) are unwarranted. Upon receipt of the request, the Board will review and consider the request at a subsequent meeting.

.127 If a reviewer is scheduled to perform a review after he or she has filed an appeal with the Board, but before the 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 action, then the committee or Board will consider what action, if any, to take regarding those reviews, based on the facts and circumstances.

Qualifications of Committee Members

.128 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 accepted system, or engagement review.¹⁴

¹⁴ 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.

- c. Trained in the Standards and guidance of the Program by completing a course that meets the team captain training requirements established by the Board within three years prior to serving on the committee or during the first year of service on the committee (see Interpretations).

.129 A majority of the committee members and the chairperson charged with the responsibility for acceptance of reviews should possess the qualifications required of a system review team captain.

.130 A majority of the committee members and the chairperson charged with the responsibility for administering the Program within the administering entity must also possess the qualifications required of a system review team captain.

Qualifications of Technical Reviewers

.131 Each technical reviewer charged with the responsibility for performing technical reviews should:

- a. Complete within the three-year period preceding the commencement of the technical review one or more training courses that are applicable to the type of peer review being evaluated and that meet the requirements of the team captain/reviewer training requirements established by the Board.
- b. Participate in at least one peer review each year.
- c. Participate in a minimum number of continuing professional education (CPE) hours in accounting and auditing that are equivalent to that required of peer reviewers established by the Board.

Effective Date

.132 The effective date for this Standard is for peer reviews commencing on or after January 1, 2005. Early implementation is not allowed.

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. See Interpretations and guidance related to independence.

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 any services provided between firms, 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 expenses, 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 (see Interpretations) 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 an approved body before that date (see Interpretations).

Appendix B

Firm Representations

1. Firms are required to comply with the rules and regulations of state boards of accountancy and other regulatory bodies in the states where they practice. For example, in certain circumstances, firms may be required to obtain a firm license/permit in order to issue accounting and audit reports. As required in paragraph .02*f* of the Standards, the peer reviewer should obtain written representations from the firm's management as a part of a peer review.

2. The team captain/reviewer obtains the representations as evidential matter that management is not aware of any situations where it or its personnel has not complied with state board(s) of accountancy or other regulatory bodies rules and regulations, including applicable firm and individual licensing requirements in each state in which it practices for the year under review or has notified the peer reviewer of such situations, has made available to the reviewer communications as stipulated in paragraph .50, has provided the reviewer with a list of all client engagements with periods ending during the year under review and has provided the reviewer with any other information requested by the reviewer. For attestation engagements, including financial forecasts and projections, the list includes those with report dates during the year under review.

3. The written representations should be addressed to the team captain/reviewer performing the peer review, because the team captain/reviewer is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the peer review report or letter of comment. For system reviews the representations should be dated the same date as the peer review report. For engagement and report reviews, the representations should be the date the firm submits the list of engagements to the reviewer. The written representations should be signed by those members of management whom the team captain/reviewer believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm and its system of quality control. Such members of management normally include the managing partner and partner/manager in charge of the firm's system of quality control. If a representation made by management is contradicted by other information obtained, the reviewer should investigate the circumstances and consider the reliability of the representations made.

4. The written representations should be obtained for the entire firm and not for each individual engagement the firm issues. Management's refusal to furnish written representations constitutes a limitation of the peer review sufficient for the reviewer to consider whether to modify the peer review report for a scope limitation or withdraw from the engagement.

December 3, 20XX

To the Team Captain/Reviewer

We are providing this letter in connection with the peer review of *[name of firm]* as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that we are not aware of any situations where *[name of firm]* or its personnel has not complied with state board(s) of accountancy or other regulatory bodies rules and regulations, including applicable firm and individual licensing requirements in each state in which it practices for the year under review or has notified the peer reviewer of any such situations. We have also provided a list of all client engagements to the *[reviewer/administering entity]* with periods ending during the year under review and has provided the reviewer with any other information requested, including communications relating to allegations or investigations (including litigation) in the conduct of an accounting, audit or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its professional personnel, within three years preceding the current peer review year-end. For attestation engagements, including financial forecasts or projections, the list included those engagements with report dates during the year under review.

Sincerely

[Name of reviewed firm]

Appendix C

Considerations Governing the Type of Report Issued on a System Review

The Nature and Significance of Engagement Deficiencies

1. 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 in all material respects. 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* (AICPA, *Professional Standards*, vol. 1, AU sec. 390), and the section of SAS No. 1 entitled "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report" (AICPA, *Professional Standards*, vol. 1, AU sec. 561), the team is faced with a clear indication that, in those engagements, the firm failed to conform with professional standards in all material respects. 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 administering entity before reaching such a conclusion.

2. The failure to conform with professional standards in all material respects on an engagement may be the result of an isolated human error and, therefore, does not necessarily mean that the peer 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.

3. Although an isolated deficiency or an instance of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report or 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 of whether to include a comment in the letter of comments related to the isolated deficiency or instance of noncompliance. Isolated matters should be identified as such if included in the letter of comment.

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 all material respects, 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.

Appendix D

Illustration of an Unmodified Report on a System Review

[*Firm letterhead for a "Firm-on-Firm Review"; Team Captain's Firm 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, 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 CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, and audits of Depository Institutions with assets of \$500 million or greater.)¹⁵ Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

* 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.

¹⁵ If the firm performs audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

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. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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 with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

(As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.¹⁶)

Smith, Jones and Associates
[*Name of team captain's firm*]

¹⁶ To be included if the review team issues a letter of comments with an unmodified report.

Appendix E

Illustration of a Letter of Comments to an Unmodified Report on a System Review

[*Firm letterhead for a "Firm-on-Firm Review"; Team Captain's Firm 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 report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Comment—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 that certain financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional standards.

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

Comment—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. Although, the firm did not summarize inspection findings from engagements reviewed on the most recent inspection, 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 system's 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*]

Appendix F

Illustration of a Response by a Reviewed Firm to an Unmodified Report With 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 including the timing of the planned actions, to prevent a recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the comments or recommendations in the letter of comments, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, please see paragraph .98 of Standards. 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 paragraphs .111 to .120 "Acceptance of System, Engagement and Report Reviews.") The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

September 15, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report and letter of comments issued in connection with the review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The matters discussed herein were brought to the attention of all personnel at a training session held on September 10, 20XX. In addition, the matters discussed in this letter will be given special emphasis in our monitoring procedures.

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

Appendix G

Illustration of a Modified Report on a System Review

[*Firm letterhead for a "Firm-on-Firm Review"; Team Captain's Firm letterhead for an "Association Review"*]

December 3, 20XX

To the Partners [*or other appropriate terminology*]

PG & Associates

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, 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 CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, and audits of Depository Institutions with assets of \$500 million or greater.)¹⁷ Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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

* See footnote * in paragraph .136.

¹⁷ If the firm performs audits of Employee Benefit Plans, engagements performed under *Government Auditing Standards*, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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, except for the effects of the deficiency(ies) described below, 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 with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

Reasons for Modified Opinion and Recommendation

Deficiency—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 engagements performed under *Government Auditing Standards* 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 notes payable did not appear to support the firm's opinion on the financial statements. These engagements were deemed substandard. 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. The firm should ensure that this is addressed as part of its ongoing monitoring procedures. 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. The firm should ensure that this is addressed as part of its ongoing monitoring procedures.

(As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.¹⁸)

Smith, Jones and Associates

[*Name of team captain's firm*]

¹⁸ To be included if the review team issues a letter of comments with a modified report.

Appendix H

Illustration of a Letter of Comments to a Modified Report on a System Review

December 3, 20XX

[Should correspond with date of report]

To the Partners *[or other appropriate terminology]*

PG & Associates

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 December 3, 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. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Comment—The firm's policies and procedures for independence have been appropriately communicated to the firm's personnel through its quality control document and through training programs. However, the firm's policies and procedures do not require that professional staff be informed of all new accounting and auditing clients or engagements on a timely basis. Our review did not note any impairment of independence on any accounting or auditing engagement. This comment was noted on the firm's previous reviews.

Recommendation—The firm should revise its policies and procedures to periodically communicate in writing to all personnel new accounting and auditing clients or engagements accepted by the firm. This communication should also request that any personnel with possible independence issues with respect to new engagements or clients contact the managing partner immediately.

Comment—The firm's policies and procedures are not designed to ensure that its compilation reports on interim and annual financial statements that omit disclosures and include supplementary information are properly worded to describe what responsibility, if any, the firm is taking for the supplementary information. This matter was not so significant as to cause the reports to be misleading.

Recommendation—The firm's policies and procedures should be revised to include a technical review of compilation reports and financial statements to ensure that those reports conform with professional standards. Although not required by professional standards, the firm should also consider implementation and use of a reporting checklist on these engagements.

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

Appendix I

Illustration of a Response by a Reviewed Firm to a Modified Report With 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 including the timing of the planned actions, to prevent a recurrence of each matter discussed in the report and the letter of comments. If the reviewed firm disagrees with one or more of the deficiencies, comments, or recommendations in the report or letter of comments, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, please see paragraph .98 of *Standards*. 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 paragraphs .111 to .120 "Acceptance of System, Engagement and Report Reviews.") The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity. The firm's response should be separated between those matters that resulted in a modified report and those that did not.

December 23, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report and letter of comments issued in connection with the review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The matters discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

Deficiency that resulted in a modified report

The firm modified its quality control policies and procedures to require a greater emphasis of partner involvement 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.

Comments that did not result in a modified report

The firm has issued a current and up to date client list for all staff to review. The client list will be distributed each time a client has been accepted by the firm. In addition, all staff will be reminded that any possible independence issues should be brought to the attention of the managing partner immediately.

In response to the comment regarding non-disclosure compilations reports, we will immediately revise the report language to conform to professional

17,746

Peer Review

standards. The firm has implemented a quality control policy for a technical manager to review each accounting and auditing report to ensure the reports conform with professional standards.

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

Sincerely,

[Name of Firm]

Appendix J

Illustration of a Modified Report for a Scope Limitation on a System Review

Limitation on Scope of Review

A modified report should be issued when the scope of the review is limited by conditions (including those discussed in the Standards) 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, 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. 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. Another example would be if the firm does not provide the reviewer with the required representations noted in paragraph .02f and Appendix B [paragraph .134].

[Firm letterhead for a "Firm-on-Firm Review"; Team Captain's Firm letterhead for an "Association Review"]

December 3, 20XX

To the Partners *[or other appropriate terminology]*
PG & Associates

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, 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 CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a

* See footnote * in paragraph .136.

reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, audits of Employee Benefit Plans, engagements performed under Government Auditing Standards, and audits of Depository Institutions with assets of \$500 million or greater.)¹⁹ Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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 performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards*. As a result we were unable to include within the scope of this review all of the engagements required to be selected by the Standards established by the Peer Review Board of the AICPA.

In our opinion, except for the effects of any deficiencies or comments that might have come to our attention had we not been limited in scope as noted above, 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 with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

(As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.²⁰)

Smith, Jones and Associates

[*Name of team captain's firm*]

¹⁹ If the firm performs audits of Employee Benefit Plans, engagements performed under Government Auditing Standards, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

²⁰ To be included if the review team issues a letter of comments with a modified report.

Appendix K

Illustration of a Letter of Comments to a Modified Report for a Scope Limitation on a System Review

December 3, 20XX

[Should correspond with date of report]

To the Partners *[or other appropriate terminology]*
PG & Associates

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 December 3, 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. These matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Comment—The firm's policies and procedures do not provide a means to ensure that all disclosures required by generally accepted accounting principles for its full-disclosure engagements have been considered. During our review, we noted instances of missing or incomplete disclosures. The missing or incomplete disclosures were not of such significance as to make the financial statements misleading.

Recommendation—The firm should revise its quality control policies and procedures to provide a means to ensure that all disclosures required by generally accepted accounting principles are identified and considered. Such means might include the use of disclosures checklists or a review by an individual not associated with the engagement.

Comment—The firm's quality control policies and procedures require a preissuance review by a partner and the completion of a final review checklist. The checklist does not include procedures for the review of the management representation letter. As a result on the audit engagements reviewed, the management representation letter did not cover the prior year when comparative financial statements were issued. The firm has subsequently obtained the management representation letter.

Recommendation—The firm should revise its policies and procedures for preissuance review by a partner and the completion of a final review checklist to include a review of the management representation letter.

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

Appendix L

Illustration of a Response by a Reviewed Firm to a Modified Report for a Scope Limitation With a Letter of Comments on a System Review²¹

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each matter discussed in the letter of comments. Although not required to respond to a scope limitation as described in the report, the firm may identify the reasons for the scope limitation. If the reviewed firm disagrees with the scope limitation as described in the report, one or more of the comments or recommendations in the letter of comments, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, please see paragraph .98 of *Standards*. 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 paragraphs .111 to .120 "Acceptance of System, Engagement and Report Reviews.") The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity. If the firm has received a modified report, the firm's response should be separated between those matters that resulted in a modified report and those that did not.

December 23, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report and letter of comments issued in connection with the review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The matters discussed below were brought to the attention of all professional personnel at a meeting held on December 20, 20XX. The matters discussed in this letter will also be monitored to ensure that they are effectively implemented as part of our system of quality control.

We concur with the comments of the reviewer. We will require that a current financial disclosure checklist be completed and reviewed by the engagement partner for each engagement issued by the firm. We have also revised audit procedures to require that the management representation letter covers both years when comparative financial statements are issued and this will be included in the partner review.

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

Sincerely,

[Name of Firm]

²¹ Although not required to respond to a scope limitation as described in the report, the firm may identify the reasons for the scope limitation.

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Appendix M

Illustration of an Adverse Report on a System Review

[*Firm letterhead for a "Firm-on-Firm Review"; Team Captain's Firm letterhead for an "Association Review"*]

August 31, 20XX

To the Partners [*or other appropriate terminology*]
NH & Associates

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, 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 CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, audits of Employee Benefit Plans, engagements performed under Government Auditing Standards, and audits of Depository Institutions with assets of \$500 million or greater.)²² Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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

* See footnote * in paragraph .136.

²² If the firm performs audits of Employee Benefit Plans, engagements performed under Government Auditing Standards, audits of Depository Institutions with total assets of \$500 million or greater at the beginning of its fiscal year, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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, because of the deficiencies described below, 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 or was not complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

Reasons for Adverse Opinion and Recommendations

Deficiencies—Our review disclosed that the firm does not use formal audit programs as required by professional standards. As a result, we noted several instances where audit procedures were not adequately performed and documented. The audit work performed for several ERISA audits did not support the opinion issued and did not conform with professional standards. These engagements were deemed substandard. The firm has subsequently performed the omitted procedures to support the audit opinions.

Recommendation—The firm's policies and procedures should require the use of audit programs on all audits, which should be tailored to cover the requirements of specialized industries, when necessary. All audit programs should be retained with the engagement work papers.

Deficiencies—The firm's quality control policies and procedures require consultation based upon the following factors: materiality, experience in a particular industry or functional area, and familiarity with the accounting principles or auditing requirements in a specialized area. We noted that the firm did not perform any consultations during the year. As a result, financial statements on an audit for a development stage company were substandard. The firm was not aware of the disclosure presentations required until it was brought to its attention during the peer review. The firm intends to recall and reissue the financial statements and report.

Recommendation—The firm should emphasize its consultation policies and procedures on those engagements that are new to the experience level of the firm's accounting and auditing personnel.

Deficiencies—The firm's policies and procedures do not provide its professional staff with a means of ensuring that all necessary procedures are performed on review engagements. During our review, we noted that the firm failed to obtain management representation letters on all review engagements. These construction industry engagements were deemed substandard. Furthermore, the engagement working papers did not include documentation of certain matters covered in the accountant's inquiry and analytical procedures as required by professional standards. The firm will obtain the representation letters and has documented the procedures.

Recommendation—The firm should review and implement the requirements of professional standards for obtaining representation letters, and the content of

the accountant's working papers on review engagements. Implementation might be achieved by utilization of a work program for performing review engagements.

Deficiencies—The firm's policies and procedures require that financial statement and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, several review engagements in the construction industry were missing several disclosures as required by generally accepted accounting principles. As stated in the previous deficiency, these engagements were substandard. The subject reports have been recalled and the financial statements are being revised.

Recommendation—The firm should conduct a training session for all professional staff to review the firm's policies and procedures for utilizing financial statement and disclosure checklists. The engagement partner should carefully review these checklists at the completion of an engagement to ensure their proper completion as required by firm policy. This can be accomplished by adding a procedure to the firm's engagement review checklist requiring the engagement partner to document his or her review of these checklists.

Deficiencies—The firm's policies and procedures specify the working papers that should be reviewed by engagement partners, and require documentation of those reviews. While reviewing engagements, we were unable to determine the extent of the engagement partner's review. As a result, we noted several documentation deficiencies on audit and review engagements, which might have been rectified if the working papers were adequately reviewed prior to the release of the audit and accountant's reports on those engagements. This deficiency was noted on the firm's previous peer review.

Recommendation—The partner-in-charge of each engagement should carefully review engagement working papers prior to signing and releasing audit and accountant's reports in order to ensure that the engagements adhere to professional standards. In order to ensure compliance with firm policy, consideration should be given to initialing each working paper after it is reviewed.

Deficiencies—The firm's policies and procedures do not require documentation of sample selections and evaluation of the results of sampling applications. During our review of engagements, we noted several instances where the firm performed nonstatistical sampling, but did not document its considerations. Through discussions with firm personnel, we were able to satisfy ourselves that adequate procedures had been performed.

Recommendation—The firm should revise its policies and procedures to require documentation of sample selections and evaluation of sampling results for statistical and nonstatistical sampling. This may be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards.

Deficiencies—The firm's quality control policies and procedures regarding new client acceptance require the preparation and approval of a new client acceptance form to document the considerations and conclusions. During our review, we noted that the form was not prepared for all new clients. However, we were informed by the firm's partners that appropriate consideration had been made in each case.

Recommendation—To ensure that all appropriate facts are considered when accepting a new client, the firm should document its considerations and conclusions by completing the new client acceptance form for each new client, and the firm administrator should create and maintain a new client file.

Smith, Jones and Associates

[Name of team captain's firm]

Appendix N

Illustration of a Response by a Reviewed Firm to an Adverse Report on a System Review

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each matter discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, please see paragraph .98 of *Standards*. 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 paragraphs .111 to .120 "Acceptance of System, Engagement and Report Reviews.") The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity.

September 23, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. All issues have been brought to the attention of the professional staff at a meeting held on September 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.

Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. Specifically noted were audit programs that were not adequately completed or missing, evaluation of the results of sample selection and other documentation deficiencies. All audit partners will immediately be required to complete a documentation checklist that will be tailored to cover the requirements of specialized industries, if necessary. In addition, we have implemented a concurring partner review on all audit and review engagements to determine if the audit documentation supports the audit opinion.

The firm has contacted two other accounting firms with expertise in development stage companies and other industries that are similar to ours. We have implemented a plan with these other accounting firms to review our work to make sure we are in compliance with professional standards and to consult when needed.

We have revised our policies and procedures to require a senior manager to review all review engagements for the documentation required by professional standards. The senior manager will be using a reviewing checklist that contains questions regarding management representation letters for each year reported on, and documentation of accountant's inquiry and analytical procedures.

At the staff meeting, the staff was reminded of the importance of completing a disclosure checklist. Within the next few weeks all professional staff will be

attending a CPE course in disclosures. In addition, the managing partner will be holding a training class on the proper completion of a disclosure checklist and who to ask if staff is unsure of any question.

Our firm administrator has created a client acceptance file. The file will contain the new and continuing client acceptance forms that will cover the considerations and conclusion of each client accepted by the firm. In addition, the managing partner will periodically review the files to determine if appropriate conclusion were reached.

Sincerely,

[Name of Firm]

Appendix O

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 and documentation on accounting, review and attestation engagements submitted for review, conform with the requirements of professional standards 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. An engagement is ordinarily considered substandard when deficiencies, individually or in aggregate exist, that are material to understanding the report or financial statements or represents a critical attestation, or accounting, procedure required by professional standards. Therefore, the identification of at least one substandard engagement automatically results in a modified peer review report to be issued unless only one engagement was reviewed then the peer review report is adverse. A significant departure from professional standards may include, but is not limited to one of 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 areas on one engagement, that individually may not be considered a significant departure from professional standards but in aggregate would result in the engagement being considered substandard.* In reaching this decision, the reviewer should use professional judgment to determine whether the departures are material to understanding the report or financial statements and/or procedures required by 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, the reviewer would issue an adverse report when all of the engagements submitted for review had significant departures from professional standards, as described previously. The reviewer should not expand scope beyond the original selection in an effort to issue a different report.

Appendix P

Illustration of an Unmodified Report on an Engagement Review

[State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; Reviewer's firm 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, Government 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 on the engagements submitted for review, and reviewing limited working papers for the purpose of considering whether the financial statements or information and the accountant's report and the documentation appear to be in conformity with professional standards in all material respects. An engagement review also includes reading required representations provided by the firm but 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 financial statements or information and the related accountant's 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 requirements of professional standards in all material respects.)²³ /(and there was no documentation required for the engagements submitted for review.)²⁴

* See footnote * in paragraph .136.

²³ Language included when firm submits engagements with documentation requirements.

²⁴ Language included when firm has no engagements with documentation requirements.

(As is customary in an engagement review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the limited assurance expressed in this report.²⁵)

John Brown, Reviewer[†]

[*CART Review*]

²⁵ To be included if the review team issues a letter of comments with an unmodified report.

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

Appendix Q

Illustration of a Letter of Comments to an Unmodified Report on an Engagement Review

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; Reviewer's firm 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 report should be read in conjunction with the comments in this letter. The matters described below were not considered to be of sufficient significance to affect the limited assurance expressed in that report.

Comment—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.

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.

Comment—During our review of the financial statements prepared under SSARS No. 8, we noted that the engagement letter did not refer to supplementary information, which was presented along with the basic financial statements.

Recommendation—The firm should review the professional standards governing the information to be included in engagements letters for financial statements prepared under SSARS No. 8 and make sure it conforms to those standards.

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

Appendix R

Illustration of a Response by a Reviewed Firm to an Unmodified Report With 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 including the timing of the planned actions to prevent the recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the comments or recommendations in the letter of comments, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph .107 of Standards. 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 paragraphs .111 to .120 "Acceptance of System, Engagement and Report Reviews.") The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

September 15, 20XX

[Addressed to the peer review committee of the administering entity]

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

To prevent the incorrect titles being used on our reports and to ensure that computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles reflect the appropriate titles, we have established a manager review of all reports and financial statements prior to issuance.

We will review professional standards governing the information to be included in engagement letters for financial statements prepared under SSARS No. 8.

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

Sincerely,

[Name of firm]

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

Appendix S

Illustration of a Modified Report on an Engagement Review

[Administering Entity letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; Reviewer's firm 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, Government 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 on the engagements submitted for review, and reviewing limited working papers for the purpose of considering whether the financial statements or information and the accountant's report and the documentation appear to be in conformity with professional standards in all material respects. An engagement review also includes reading required representations provided by the firm but 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, except for the effect of the deficiency(ies) described below, nothing came to our attention that caused us to believe that the financial statements or information and the related accountant's 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 requirements of professional standards in all material respects.)/(and there was no documentation required for the engagements submitted for review.)²⁶

Reasons for Modified Report and Recommendations

Deficiencies—During our review of the accountant's reports issued by the firm, we noted numerous instances in which the accompanying financial statements

* See footnote * in paragraph .136.

²⁶ Language included when firm has no engagements with documentation requirements.

departed from professional standards and the accompanying accountant's reports were not appropriately modified. These included failure to do the following:

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

In one instance, on a review of a manufacturing client, the firm discussed the departures with the client and decided to recall its report and restate the accompanying financial statements in order to comply with professional standards in all material respects. This engagement was deemed substandard.

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 comprehensive reporting and disclosure checklist on accounting engagements, or a cold review of reports and financial statements prior to issuance.

Deficiencies—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. The construction industry engagement referred to in this deficiency was deemed substandard. This deficiency was identified on the firm's previous review.

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.

Deficiencies—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. As previously mentioned, these engagements were deemed substandard.

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.

(As is customary in an engagement review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the limited assurance expressed in this report.²⁷)

John Brown, Reviewer †

[*CART Review*]

²⁷ To be included if the review team issues a letter of comments with a modified report.

† See footnote † in paragraph .148.

Appendix T

Illustration of a Letter of Comments to a Modified Report on an Engagement 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 matters described below were not considered to be of sufficient significance to affect the limited assurance expressed in that report.

Comment—On an engagement submitted for review the financial statements disclosures were omitted in the areas of advertising and concentration of credit risk.

Recommendation—The firm should review the professional standards for financial statement disclosures and consider establishing a means to comply with those standards. Such means might include the use of a comprehensive disclosure checklist.

Comment—During our review of a nonprofit engagement, we noted that the statement of activities did not present the change in total net assets of the entity for the reporting period as required by professional standards. The statement did report the changes in the applicable categories of net assets required by professional standards.

Recommendation—The firm should review the presentation requirements of professional standards and communicate information regarding those requirements to appropriate staff.

Comment—The firm represented to us that it did not possess a firm license as required by the state board of accountancy to perform engagements and issue reports for two months of the year under review.

Recommendation—The partners of the firm should ensure that they renew their firm license in a timely manner.

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

Appendix U

Illustration of a Response by a Reviewed Firm to a Modified Report With 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 including the timing of the planned actions to prevent the recurrence of each matter discussed in the report and letter of comments. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, or comments or recommendations in the letter of comments, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph .107 of *Standards*. 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 paragraphs .111 to .120 "Acceptance of System, Engagement and Report Reviews.") The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity. The firm's response should be separated between those matters that resulted in a modified report and those that did not.

September 15, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

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

Matters that resulted in a modified report

As recommended by the reviewer, the entire staff has participated in continuing professional education related to reporting and disclosures. We will be performing a preissuance review by a partner not associated with the engagement to make sure that the accountant's report is appropriately modified when the financial statements depart from professional standards. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation is included in the working papers.

The firm reviewed professional standards regarding reporting on comparative financial statements and going concern issues and will have a manager review these items on all future reports and financial statements and reports.

Matters that did not result in a modified report

We will put into practice a reporting and disclosure checklist for all engagements to be completed by staff. The checklist will be reviewed by the partner in charge of the engagement. The reporting and disclosure checklist will cover

[‡] See footnote ‡ in paragraph .150.

presentation of statement of activities issued by this firm and will be updated as new pronouncements are issued to ensure all disclosures are included in the financial statements.

The firm has obtained the appropriate state board of accountancy license to perform engagements and issue reports.

We believe these actions address the matters noted by the reviewer.

Sincerely,

[Name of firm]

Appendix V

Illustration of an Adverse Report on an Engagement Review

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; Reviewer's firm 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, Government 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 on the engagements submitted for review, and reviewing limited working papers for the purpose of considering whether the financial statements or information and the accountant's report and the documentation appear to be in conformity with professional standards in all material respects. An engagement review also includes reading required representations provided by the firm but 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.

Because of the deficiencies described below, we believe that the engagements submitted for review by [*Name of firm*] for the year ended June 30, 20XX, do not conform with the requirements of professional standards in all material respects.

Reasons for Adverse Report and Recommendations

Deficiencies—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. The compilation and review engagements in the construction and manufacturing industries, respectively were deemed sub-standard.

* See footnote * in paragraph .136.

Recommendation—We recommend the firm establish a means of ensuring its conformity with professional standards. In addition, we recommend the firm review and implement the requirements for obtaining management representation letters on review engagements. The firm should either participate in continuing professional education in financial statement disclosures, use of a reporting and disclosure checklist on accounting engagements, or conduct a pre-issuance review of the report and accompanying financial statements by an individual not associated with the engagement prior to issuance.

Deficiencies—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. The compilation engagements in the professional services industry were deemed substandard. This deficiency was noted in the firm's previous reviews.

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.

Deficiencies—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 omissions were not disclosed in the accountant's reports. As indicated in a previous deficiency, the construction industry compilation engagement was deemed substandard.

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.

Deficiencies—During our review of the financial statements prepared under SSARS No. 8, we noted that the engagement letter did not include all of the required information. This construction industry compilation engagement was deemed substandard.

Recommendation—The firm should review the professional standards governing the information to be included in engagement letters for financial statements prepared under SSARS No. 8 and make sure it conforms to those standards.

Smith, Jones and Associates

[Name of reviewer's firm on Firm-on-Firm Review or Association Formed Review Team]

John Brown, Reviewer[†]

[CART Review]

[†] See footnote [†] in paragraph .148.

Appendix W

Illustration of a Response by a Reviewed Firm to an Adverse Report on an Engagement Review

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each matter discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph .107 of *Standards*. 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 paragraphs .111 to .120 "Acceptance of System, Engagement and Report Reviews.") The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

September 15, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

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

To prevent the recurrence of the deficiencies noted by the reviewer and to prevent other such deficiencies from occurring, we will review the professional standards related to the deficiencies and ensure that the professional standards will be complied with on all future engagements.

Specifically, we have implemented a partner review to ensure that all management representation letters are obtained for all review engagements issued by the firm.

All professional staff who work on accounting engagements will be participating in continuing professional education in disclosures and reporting to correct the disclosure and reporting deficiencies noted by the reviewer. In addition, we have started using a third-party reporting and disclosure checklist to ensure all reporting and disclosure matters are appropriately addressed.

We are now using a third-party checklist for all SSARS No. 8 engagements to ensure that all requirements of professional standards are adhered to.

We believe these actions are responsive to the deficiencies noted on the review.

Sincerely,

[Name of firm]

[‡] See footnote ‡ in paragraph .150.

Appendix X

Illustration of a Report on a Report Review

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; Reviewer's firm 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 [*Name of Firm*] (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. [*Name of Firm*] 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 required representations provided by the firm and other representations on the engagements submitted for review. The objective of a report review is to enable the reviewed firm to enhance 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:

Significant 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.

Significant Comment—During our review of the accountant's reports issued by the firm, we noted numerous instances in which the accompanying financial statements departed from professional standards and on which the accountant's 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> <cold review of reports and financial statements prior to issuance>.

Significant Comment—In 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.

Significant Comment—On one of the compilation engagements submitted for review, we noted that the accountant's report was not modified to indicate that the financial statements were presented on a comprehensive basis of accounting other than generally accepted accounting principles. Specifically, the financial statements were prepared on the <cash basis> <modified cash basis> <income tax basis> of accounting and omitted substantially all disclosures, but did not describe the basis of accounting in a footnote or in a note on the face of the financial statements. In these circumstances, Statement on Standards for Accounting and Review Services require discussion of the basis of accounting in the accountant's report.

Recommendation—We recommend that the firm review the financial statements that it compiles and identify those prepared using 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 the accountant's report, footnote or note on the face of the financial statements must be revised or created. The memorandum should indicate that a report should describe the basis of accounting and state that it is a comprehensive basis of accounting other than generally accepted accounting principles, unless the firm's client prefers to add a separate footnote to the financial statements or include a note on the face of the financial statements that describes the basis of accounting.

Significant Comment—On one of the engagements that we reviewed, we noted that the firm's compilation report did not identify the firm's lack of independence with respect to the financial statements as required by the AICPA Statements on Standards for Accounting and Review Services.

Recommendation—We recommend that all members of the firm review the situations that can impair independence and determine if there are any engagements where the firm's independence may be impaired. Independence should also be considered during the final engagement review process.

Significant Comment—The reports on compiled financial statements for the engagements selected for review did not indicate that the financial statements omitted substantially all disclosures required by <generally accepted accounting standards> <the cash basis of accounting> <the income tax basis of accounting>.

Recommendation—We recommend that the firm review its compilation engagements that are prepared with substantially all disclosures omitted and determine that the accountant's report includes a reference to the omission of substantially all disclosures.

Significant Comment—Our review also identified instances in the engagements selected for review where the firm's compilation reports did not contain all reporting elements required by professional standards. Specifically, the reports did not:

- Refer to Statements on Standards for Accounting and Review Services
- Refer to either periods covered by the financial statements
- Describe the responsibility taken on the supplementary information

Recommendation—We recommend that the firm review the current requirements for reporting on financial statements and revise the standard reports used by the firm to conform with these requirements. In addition, the firm should revise its reports to conform with professional standards governing reporting on comparative periods and supplemental information presented with the financial statements.

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. The basis of accounting was readily determinable.

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.

Comment—We noted that the accountant's reports for compiled financial statements, prepared on the <cash basis> <income tax basis> of accounting, did indicate the basis of accounting, but did not indicate that "the <cash> <income tax> basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles," as required by Statements of Standards for Accounting and Review Services. A similar comment was noted on the firm's prior peer review.

Recommendation—The firm should review its standard accountant's reports for compiled financial statements prepared on an other comprehensive basis of accounting. The reports should then be modified, as necessary, to include that the basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles.

Comment—The firm represented to us that it did not possess the required firm state license to perform compilation engagements and issue reports thereon for the period when the reports were issued on the engagements selected for review.

Recommendation—The firm should obtain the required firm state license.

Smith, Jones and Associates

[*Name of reviewer's firm on Firm-on-Firm Review or Association Formed Review Team*]

John Brown, Reviewer ^{||}

[*CART Review*]

Authorized acknowledgement for the reviewed firm:

I acknowledge receipt of the report (and that there are no disagreements on the comments above and that the firm agrees to correct all comments by implementing the above recommendation(s)).[#]

Signature: _____ Title: _____ Date: _____

^{||} The description *Reviewer*, not *Team Captain*, should be used in reports on CART report reviews.

[#] Phrase in parenthesis must be included when there are comments.

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(2002–2003)**

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PR Section 9000

INTERPRETATIONS OF THE STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

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PR Section 9100

Peer Review Standards Interpretations

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.

(Issued Through May 1, 2006)

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

.01 Question—Paragraph .04 of the *Standards for Performing and Reporting on Peer Reviews (Standards)*, states 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 no professional staff) who performs a total of three or less engagements covered by the SASs, *Government Auditing Standards* or examinations of prospective financial statements under the SSAEs, (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 system or engagement review or a report review with significant comments; 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 (except as noted below):

- 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. A written representation, dated the same as the peer review report, as described in paragraph .02f and Appendix B of *Standards*
- e. Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client
- f. A list of relevant technical publications used as research materials, as referred to in the quality control policies and procedures questionnaire (see *AICPA Peer Review Program Manual* [PRP section 4100])
- g. 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* [PRP section 4100])
- h. Continuing professional education (CPE) records sufficient to demonstrate compliance with state, AICPA and other regulatory CPE requirements
- i. The relevant accounting and auditing documentation and reports on the engagements selected for review
- j. Documentation of the firm's monitoring results for each year since the last peer review or enrollment in the program
- k. 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, especially as it relates to the firm's first system review.

2. Engagement Selection in System Reviews

.05 *Question*—Paragraph .63 of the *Standards for Performing and Reporting on Peer Reviews* requires that specific types and/or number of engagements that must be selected on a system review as well as specific audit areas. 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. Government Accountability 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, since those reports are required to be issued under the Act.

[.07] [Deleted May, 2006.]

3. Team Captain and Reviewer Training Courses

.08 Question—Paragraph .32e of the *Standards for Performing and Reporting on Peer Reviews* states that reviewers should "have completed a training course or courses that meet requirements established by the Board when the function of the reviewer goes beyond reviewing engagements." At what point is the reviewer going beyond reviewing engagements and what specific type of course or courses, if any, should a system review team captain, engagement and report reviewer complete?

.09 Interpretation—The reviewer goes beyond reviewing engagements when he or she prepares any other peer review documentation beyond preparing and completing the engagement checklist and MFC forms.

.10 Interpretation—To initially qualify as a reviewer as noted in paragraph .09 above, 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").

.11 Interpretation—In order to maintain qualifications of a reviewer, when the function of the reviewer goes beyond reviewing engagements, 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; or other courses approved by the AICPA Peer Review Board.

.12 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 as 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 .11 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).

4. Minimum CPE Requirement for Peer Reviewers

.13 Question—Paragraph .32b of the *AICPA Standards for Performing and Reporting on Peer Reviews* 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?

.14 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 Paragraph .03 of the *AICPA Standards for Performing and Reporting on Peer Reviews*.

.15 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.

5. Independence, Integrity, and Objectivity

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

.17 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.

.18 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?

.19 Interpretation—Yes.

.20 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?

.21 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.

.22 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?

.23 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.

.24 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?

.25 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.

.26 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?

.27 Interpretation—Yes, unless the following are present:

1. 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;
2. The pre-issuance review(s) was performed on an engagement within the current peer review year.

.28 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?

.29 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 *AICPA Peer Review Program Manual*, PRP section 9100.05, *Guidelines for Associations of CPA Firms*.) 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.

.30 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?

.31 Interpretation—No. Although the *Standards for Performing and Reporting on Peer Reviews* 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.

.32 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?

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

.34 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?

.35 Interpretation—Yes.

.36 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?

.37 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.

.38 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?

.39 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.

.40 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?

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

.42 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.?

.43 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.

.44 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?

.45 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 non-affiliated 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.

.46 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?

.47 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.

.48 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 CPA society provide peer review for each other?

.49 Interpretation—Yes.

.50 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?

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

6. Individual Enrollment in the AICPA Peer Review Program

.52 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 .02 of the *Standards* 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 (Program) as an individual?

.53 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 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 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 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.

.54 Question—The *Standards for Performing and Reporting on Peer Reviews (Standards)* as well as its Interpretations and guidance materials for the 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*, Interpretations or Guidance is intended to be directed at the actual firm or organization that was not eligible to enroll?

.55 Interpretation—As an alternative to rewriting all of the *Standards* to reflect individual enrollment, the term "firm," as it appears in the *Standards* 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 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.

.56 Question—When performing the peer review of an enrolled individual in the 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?

.57 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.

.58 Question—If an individual enrolled in the 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?

.59 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.

.60 Question—As discussed in paragraph .119 of the *Standards*, can a hearing panel decide to terminate an individual's enrollment in the AICPA peer review program?

.61 Interpretation—Yes. The due process related to hearings and appeals to the AICPA Joint Trial Board for individuals enrolled in the 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 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.

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

.62 Question—The Statement on Standards for Accounting and Review Services (SSARS) No. 1 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*, 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 .03 of the *Standards*, 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?

.63 Interpretation—Yes. For firms enrolled in the AICPA peer review program, the compilations for management's use only as described in the Statement on Standards for Accounting and Review Services No. 8 would fall within

the scope of peer review. The *Standards for Performing and Reporting on Peer Reviews* (and *Statement on Quality Control Standards No. 2*) include within the definition of an accounting and auditing practice, all engagements covered by SSARS except where SSARS provides an exemption from those standards.

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

.65 Interpretation—Since all of the *Standards for Performing and Reporting on Peer Reviews (Standards)* 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 the Statement on Standards for Accounting and Review Services No. 8 should be treated as though they were "reports" (as reports are discussed and referred to in the *Standards*). This documentation would not be considered "reports" for bylaw purposes.

.66 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?

.67 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.

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

.69 Interpretation—The Statement on Standards for Accounting and Review Services (SSARS) No. 8 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. 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.

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

.71 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* 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. The Statement on Standards for Accounting and Review Services (SSARS) No. 8 does not change the existing engagement selection process.

.72 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?

.73 Interpretation—No.

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

.74 Question—The *Standards for Performing and Reporting on Peer Reviews (Standards)* refer 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?

.75 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.

.76 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.

.77 Interpretation—In either of the situations described in paragraphs .75 or .76 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.

9. Significant Matters and Comments on a Report Review

.78 Question—Paragraphs .79, .108d and .116 of the *Standards* and the acknowledgement sentence in the report issued on a report review (Appendix X), 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?

.79 Interpretation—Significant matters on a report review may include, but are not limited to: matters 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, firm's written representations that indicate a failure to comply with a regulatory requirement, and unusual technical issues or reviews with a separate response, where although not always required, may be appropriate for committee consideration.

.80 Interpretation—Significant 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 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:
 - i. A compilation has been performed in accordance with SSARS issued by the AICPA.
 - ii. A compilation is limited to presenting in the form of financial statement information that is the representation of management (owners).
 - iii. 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.
 - iv. The paragraph representing that management has elected to omit substantially all of the required disclosures required by GAAP or OCFBOA.
 - v. Any of the periods covered by the financial statements, and it cannot be determined from reading the financial statements.
 - vi. 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 SSARS No. 8.
- h. Failure to document any of the required descriptions and statements in the engagement letter required by SSARS No. 8 (except for a reference to supplementary information, if applicable).
- i. Failure to have an individual license to practice public accounting.

.81 Question—What ordinarily would not be considered a significant comment?

.82 Interpretation—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. Failure to comply with certain regulatory requirements as indicated in the firm's written representations to the reviewer.
- g. Other minor report-dating departures.
- h. 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.

10. Peer Review Material Retention Policies

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

.84 Interpretation—Peer review materials prepared during system, engagement and report reviews, with the exception of those described in paragraphs .85, .86 and .87 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 [paragraphs .74–.77]). 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.

.85 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 received by the administering entity from the AICPA Professional Ethics Division related to individual members performance on accounting, auditing or attestation engagements

.86 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

.87 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 .85 should still be retained. The administering entity may also choose to retain the administrative materials in paragraph .86. 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.

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

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

.89 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 .90 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.

.90 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 and 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.

.91 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.

12. Other Enrollment Requirements

.92 Question—Paragraph .07 of the *Standards for Performing and Reporting on Peer Reviews* states "See Interpretations for other enrollment criteria, such as those firms that are required to be registered with and inspected by the Public Company Accounting Oversight Board (PCAOB)." 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?

.93 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 AICPA Peer Review Program. Such firms must enroll in the Center for Public Company Audit Firms Peer Review Program.

.94 Interpretation—Firms (not subject to paragraph .93 above) that perform audits of non-SEC issuers pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB) are eligible to enroll in the AICPA Peer Review Program. However, engagements performed pursuant to the standards of the PCAOB will be excluded from the firm's peer review and the peer

review report would include a scope limitation without exception. Firms have the option of enrolling in the Center for Public Company Accounting Firms Peer Review Program where the engagements would be included in the scope for possible selection in the peer review.

.95 Interpretation—The AICPA Peer Review Board has issued a Resolution regarding dropping a firm's enrollment from the AICPA Peer Review Program which is as follows:

AICPA Peer Review Board Resolution

(Adopted April 29, 1996 with amendments through January 1, 2005)

WHEREAS, a firm enrolled in the AICPA Peer Review Program is required to have a peer review once every three years performed in conformity with the AICPA *Standards for Performing and Reporting on Peer Reviews*; and

WHEREAS, a firm enrolled in the AICPA peer review program is required under the AICPA *Standards for Performing and Reporting on Peer Reviews* to cooperate with the administering entity and with the AICPA Peer Review Board in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be dropped by the AICPA Peer Review Board, without a hearing, thirty days after the AICPA Peer Review Program notifies the firm by certified mail that the firm has failed to:

- (1) Timely file requested information with the entity administering the firm's peer review concerning the arrangement or performance of that peer review,
- (2) Timely submit requested information to the reviewer necessary to plan or perform the firm's peer review,
- (3) Have a peer review by the required date,
- (4) Timely pay in full the fees and expenses of the review team formed by an administering state CPA society, or
- (5) Timely pay fees related to the administration of the program that have been authorized by the governing body of an administering entity.

The AICPA Peer Review Board may at its discretion decide to hold a hearing. Whether a hearing is held or not, a firm enrolled in the AICPA peer review program has the right to appeal to the AICPA Joint Trial Board within 30 calendar days of being notified that the firm has been dropped.

.96 Interpretation—The AICPA Peer Review Board has issued a Resolution regarding terminating a firm's enrollment from the AICPA Peer Review Program which is as follows:

AICPA Peer Review Board Resolution

(Adopted April 29, 1996 with amendments through January 13, 2004)

WHEREAS, a firm enrolled in the AICPA peer review program is required to have a peer review once every three years performed in conformity with the AICPA *Standards for Performing and Reporting on Peer Reviews*; and

WHEREAS, a firm enrolled in the AICPA peer review program is required under the AICPA *Standards for Performing and Reporting on Peer Reviews* to cooperate with the administering entity and with the AICPA Peer Review Board in all matters related to the review;

NOW, THEREFORE, BE IT RESOLVED: A firm that fails to cooperate with the administering entity by (1) failing to timely file the report (signed by the firm on a report review), letter of comments, if any, and the response thereto related to its peer review or (2) failing to timely acknowledge and complete

required corrective or monitoring actions will be advised by certified mail that the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm's enrollment in the peer review program should be terminated. A firm enrolled in the AICPA peer review program that has been notified that it is the subject of such a hearing may not resign until the matter causing the hearing has been resolved. After a hearing is held, a firm enrolled in the AICPA peer review program has the right to appeal the panel's decision to the AICPA Joint Trial Board within 30 calendar days of the hearing; and

BE IT FURTHER RESOLVED: That a firm's failure to cooperate with the administering entity would also include failing to receive an unmodified peer review after (1) receiving at least two consecutive peer reviews prior to the third that were modified and/or adverse AND (2) receiving notification via certified mail after the second consecutive modified and/or adverse peer review report that a third consecutive failure to receive an unmodified peer review report may be considered a failure to cooperate with the administering entity. Report reviews containing significant comments are considered equivalent to failing to receive an unmodified report for the purposes of this resolution.

BE IT FURTHER RESOLVED: The administering entity has the authority to determine if a firm's response is substantive. If the administering entity determines that a response is not substantive, and the firm does not revise its response or submits additional responses that are not substantive as determined by the administering entity, this would also be deemed a firm's failure to cooperate.

BE IT FURTHER RESOLVED: A firm's enrollment in the AICPA Peer Review Program will be terminated for failure to cooperate in any of the above situations, without a hearing, upon receipt of a plea of guilty from the firm; and

BE IT FURTHER RESOLVED: That pursuant to the AICPA *Standards for Performing and Reporting on Peer Reviews*, the fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, whether with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe.

13. Communications Relating to Allegations or Investigations in the Conduct of Accounting, Auditing or Attestation Engagements

.97 Question—Paragraphs .35 and .50 of the *Standards for Performing and Reporting on Peer Reviews* discuss communications relating to allegations or investigations in the conduct of accounting, auditing or attestation engagements and "See Interpretation(s)." What are the objectives of these requirements and what are some examples, although not an all inclusive list, of such communications?

.98 Interpretation—The objective of the firm making such communications available to the reviewer is to enhance the risk based approach to peer review by allowing the reviewer to better plan and perform the review, including engagement, industry, office and owner selection that should be given greater emphases in the review. It is expected that the reviewer and the firm will discuss these matters but the firm will only have to *submit* actual documentation to the reviewer in those circumstances that the reviewer deems appropriate.

.99 Question—What if a reviewed firm chooses not to make such communications available (or submit documentation), to the reviewer during the review?

.100 Interpretation—If a firm fails to make available such communications to the reviewer (or submit documentation), the reviewer should immediately

consult with the administering entity to determine whether this failure should result in a scope limitation in the peer review report.

.101 Interpretation—The objective of the reviewer making such communications available to the administering entity is to enhance the AICPA Peer Review Program's oversight process which includes ensuring that peer reviewers are appropriately qualified.

.102 Question—What if a reviewer fails to immediately notify the administering entity of any such communications relating to the conduct of his or her performance of accounting, audit or attestation engagements?

.103 Interpretation—If a reviewer fails to immediately notify the administering entity of such communications, the administering entity's peer review committee and/or the AICPA Peer Review Board will consider what actions should be taken in the specific circumstances. These actions may include, but is not limited to, on-site oversight at the reviewer's expense or removal from the list of qualified peer reviewers.

.104 Interpretation—There are many types of communications that are appropriately related to meeting the objectives described in this Interpretation. The following list, which is not intended to be all inclusive, represents examples of the types of organizations where communications would be relevant to meeting the objectives of the requirement"

- a. AICPA or State CPA Society Ethics Committees
- b. AICPA Joint Trial Board
- c. State Boards of Accountancy
- d. Security and Exchange Commission
- e. Public Company Accounting Oversight Board
- f. State Auditor
- g. Department of Labor
- h. Employee Benefits Security Administration
- i. Government Accountability Office
- j. Office of Management and Budget
- k. Department of Housing and Urban Development
- l. Federal Deposit Insurance Corporation
- m. Office of Thrift and Supervision
- n. Federal or State Inspector General's Offices
- o. Other governmental agencies or other organizations that have the authority to regulate accountants (in connection with the firm's accounting, auditing, or attestation practice)
- p. Legal letters (in connection with the firm's accounting, auditing, or attestation practice)

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